THE STATE OF MONTANA

Governor's Executive Budget

FISCAL YEAR 1987

TED SCHWINDEN, GOVERNOR

State of Montana
Office of the Governor
Helena, Montana 59620
406-444-3111

TED SCHWINDEN
GOVERNOR

May 30, 1986

MEMBERS OF THE FORTY-NINTH LEGISLATURE, MEETING IN SPECIAL SESSION:

In accordance with Article VI, Section 9, of the Constitution of Montana, I am pleased to transmit to you my proposal to bring the 1986-87 biennial budget into balance by the end of the current biennium.

You can expect full cooperation from this office and the executive branch agencies during your deliberation.

Respectfully submitted,

Ted Schwinden

TED SCHWINDEN
Governor

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Mr. William Mather, Chairman
Ms. Nancy Nicholson
Mr. Calvin Robinson
Mr. George Ruff
Mr. Frederick Tossberg

GOVERNOR'S EXECUTIVE BUDGET

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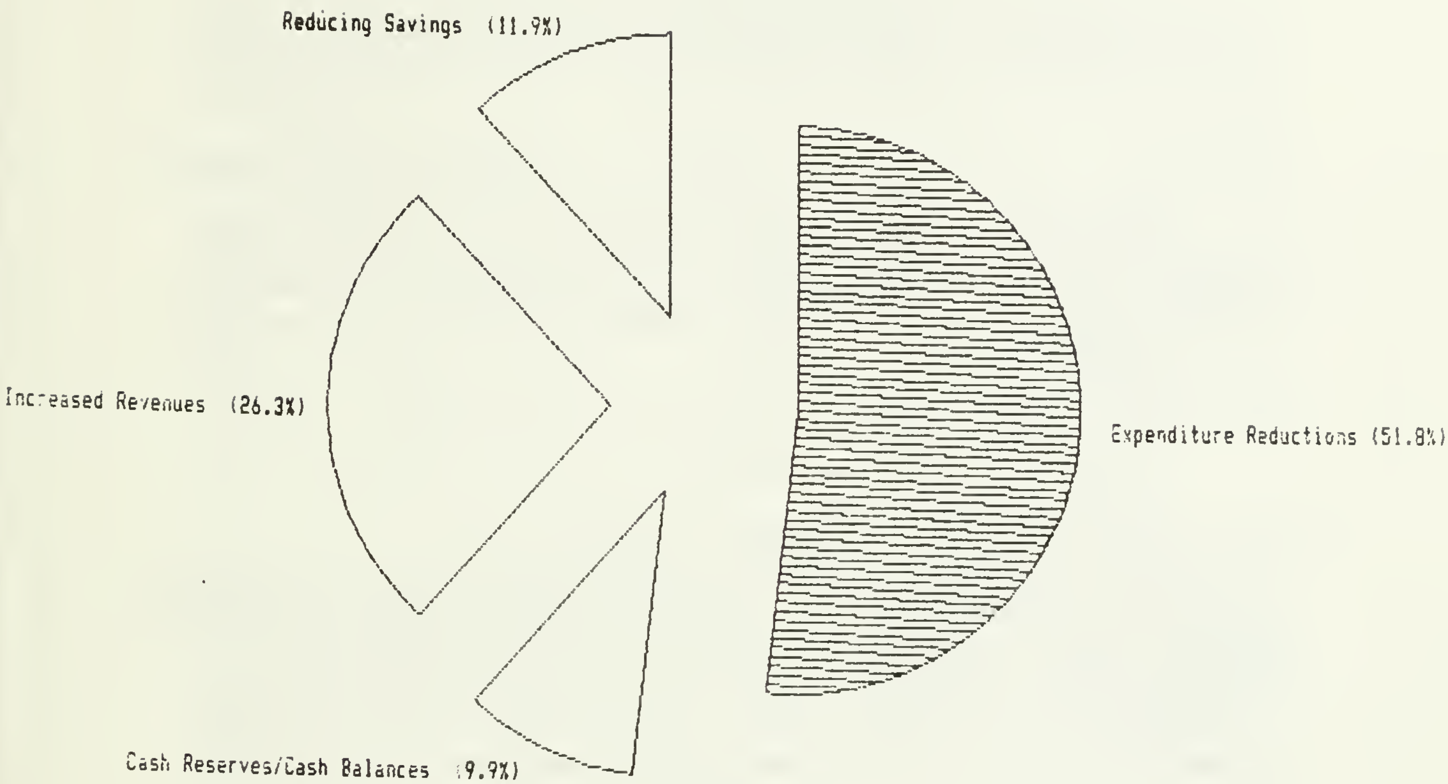
GOVERNOR'S EXECUTIVE BUDGET



GOVERNOR'S EXECUTIVE BUDGET

	Amount (in million $)	Percent
Expenditure Reductions	48.221	51.8%
Cash Reserves/Cash Balances	9.243	9.9%
Increased Revenues	24.475	26.3%
Reducing Savings	11.106	11.9%
Total	$93.045	

THE GOVERNOR'S BUDGET PROPOSAL

The major objectives of the Governor's proposed budget are those dictated by common sense and fairness--limiting the growth of the state's spending base and spreading the burden of sacrifice equitably among the various programs and services. Most state commitments would be frozen at current levels. Some new programs would be delayed and a few eliminated. Deposits to the resource indemnity trust and education trust would be temporarily redirected to the general fund. State agencies have been asked to identify 5% reductions and state employees have been asked to forego the scheduled FY87 wage increase. The low inflation rates projected for the next two years should greatly reduce the impact of suggested agency reductions and the wage freeze.

The Governor's proposal would:

--reduce General Fund expenditures by $48.2 million,
--appropriate cash reserves of $9.2 million,
--reduce savings by $11.1 million, and
--adopt $24.5 million in new or increased taxes.

Since much of Montana's current budget problem stems from the decline in oil prices, the administration proposes a fuel tax increase of 5 cents on gasoline and 3 cents on diesel. The increased fuel tax would allow $22.763 million of revenue currently allocated to the highway department--federal mineral leasing, coal tax, and interest income--to be reallocated to the general fund. This will help balance the state budget while maintaining Montana's highway program at its current level.

If adopted by the Legislature, the Governor's recommendations would balance the budget, with a small, but prudent surplus.

In the 1970s, booming energy development, a prosperous agriculture and high interest rate earnings greatly increased Montana's state government revenues. In the 1980s, that situation has reversed. Drought and nationwide recession in the agriculture, copper and timber industries have coincided with a sudden and unexpected drop in oil prices and interst rates.

The resulting decline in Montana's major revenue sources threatens the state's fiscal integrity. Since the 1985 Legislature adjourned, the state's financial situation has deteriorated by $117 million. But because the administration has insisted on maintenance of a reasonable ending fund balance, only $87.8 million in adjustments need be made to achieve a zero balance by June 30, 1987.

Montana's economy will improve. Economists expect lower energy costs and lower interest rates to stimulate the national and state economies. With the cooperation of the weather, 1986 should be a considerably better year for Montana's farmers and ranchers. Efforts to diversify and strengthen our economic base have yielded a growing number of new, small businesses. And, Montana's expanding tourism and mining industries hold considerable promise for the immediate economic future.

Rather than a long-term fiscal crisis, the June Special Session faces a temporary--but nonetheless, critical--revenue shortfall. The legislature's decisions will need to both provide an adequate level of state services and meet the constitutional mandate to balance Montana's budget.

Importance of June 30th

It is important that the legislature act on benefits, salary, and foundation increases prior to June 30th. On July 1st, the salary increase for state employees may become a vested right. The same may be true of the benefit increases in SRS and the 4% increase in the School Foundation Program. If legislation has not been adopted implementing the proposed freezing of those programs, the opportunity to reduce those expenditures may be lost.

Implementing Legislation

The administration will introduce amendments to HB 500 to implement the across-the-board expenditure reductions and those policy reductions which can be amended in HB 500. A revenue resolution will be introduced that details the revenue estimate of the Governor's Revenue Estimating Advisory Council. The Governor's policy recommendations for increased revenues will be itemized separately in the resolution.

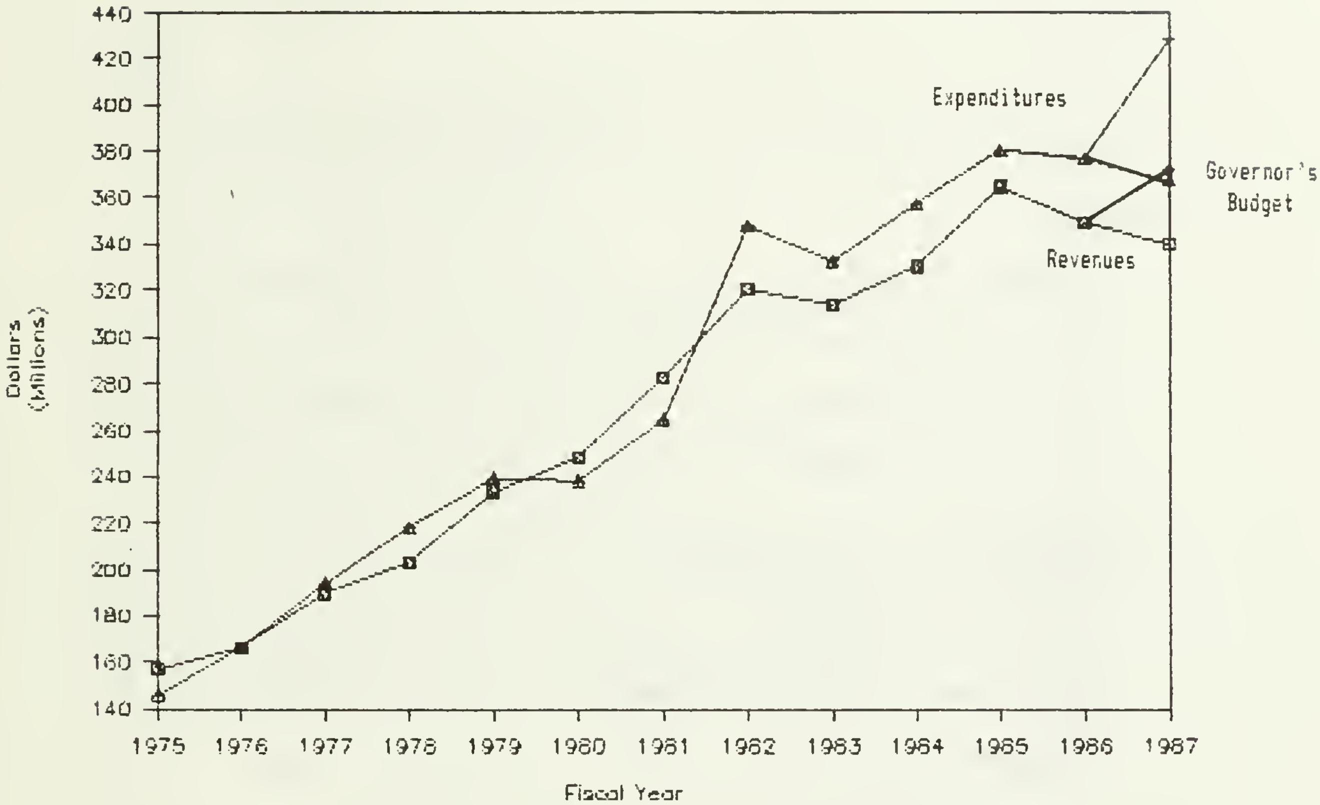
Policy proposals that require legislative changes will be introduced at the request of the appropriate state agency.

CURRENT LAW
GENERAL FUND SUMMARY
(MILLIONS)

	FY84 (actual)	FY85 (actual)	FY86	FY87
Beginning Fund Balance	$ 57.141	$ 35.097	$ 27.545	$ 1.035
Receipts				
Estimated Revenue	$330.305	$364.522	$349.468	$339.865
Total Receipts	$330.305	$364.522	$349.468	$339.865
Total Available	$387.446	$399.619	$377.013	$340.900
Disbursements				
Budgeted Disbursements	345.127	365.061	356.262	348.706
Foundation Program	12.260	15.298	11.493	21.067
Foundation Program Supplemental			0.000	25.034
Legislative Feed Bill			0.886	4.400
Continuing Appropriations			1.064	
Pay Plan Proposal			4.186	12.314
March Special Session Appropriations			3.692	3.889
Supplemental Requests				7.443
Emergency & Disaster			0.204	0,151
Trans Interest			2.137	1.833
Debt Service			10.270	10.342
Appropriation Cuts			-6.951	
Reversions			-6.500	-6.500
Total Disbursements	$357.387	$380.359	$376.743	$428.679
Adjustments (Prior Year)	5.038	8.285	0.765	
Ending Fund Balance	$ 35.097	$ 27.545	$ 1.035	($ 87.779)

General Fund Expend. & Revenue Growth

Fiscal Years 1975 to 1987



	Fiscal Year	General Fund Revenue	General Fund Expenditures
	1975	$156,641,727	$146,016,077
	1976	$166,345,787	$166,340,393
	1977	$189,879,345	$194,300,259
	1978	$203,244,549	$218,093,769
	1979	$233,360,791	$239,029,559
	1980	$248,131,743	$238,157,939
	1981	$282,526,748	$264,551,569
	1982	$320,259,309	$347,901,269
	1983	$313,575,015	$332,610,274
	1984	$330,305,498	$357,367,352
	1985	$364,521,637	$380,358,776
	1986	$349,468,000	$376,743,000
	1987	$339,865,000	$428,679,000
Proposed	1987	$372,398,000	$374,667,000

* FY 1986 & FY 1987 data is estimated.
FY87 reflects current budgeted amounts
without any proposed reductions in
expenditures or increases in revenue.

GOVERNOR'S EXECUTIVE BUDGET
GENERAL FUND SUMMARY
(MILLIONS)

	FY86	FY87	Proposed FY87
Beginning Fund Balance	$ 27.545	$ 1.035	$ 1.035
Receipts			
Estimated Revenue	$349.468	$339.865	$339.865
Proposed Revenue Adjustments			39.033
Total Receipts	$349.468	$339.865	$378.898
Total Available	$377.013	$340.900	$379.933
Disbursements			
Budgeted Disbursements	356.262	348.706	348.706
Foundation Program	11.493	21.067	21.067
Foundation Program Supplement	0.000	25.034	7.100
Legislative Feed Bill	0.886	4.400	4.400
Continuing Appropriations	1.064		0.000
Pay Plan Proposal	4.186	12.314	4.186
March Special Session Appropr.	3.692	3.889	3.889
Supplemental Requests		7.443	7.443
Emergency & Disaster	0.204	0.151	0.151
Trans Interest	2.137	1.833	2.658
Debt Service	10.270	10.342	10.493
Appropriation Cuts	-6.951		-28.926
Reversions	-6.500	-6.500	-6.500
Total Disbursements	$376.743	$428.679	$374.667
Adjustments (Prior Year)	0.765		
Ending Fund Balance	$ 1.035	($ 87.779)	$ 5.266

SUMMARY OF RECOMMENDATIONS

Expenditure Reductions	General Fund Savings in Millions of Dollars
1. Across-The Board Reductions	12.100
2. Maintain State Employees Pay	8.128
3. Maintain School Foundation Program	11.229
4. Liquor System Reductions	1.085
5. Delay the Capitol Renovation	4.949
6. Maintain SRS Benefits at FY86 Level	1.930
7. Limit GA Benefits for Able Bodied Individuals	1.100
8. Other SRS Benefit Reductions	0.326
9. Increased SRS Matching Rate	1.222
10. Close the Youth Evaluation Program	0.110
11. Close the "Lighthouse" Program at Galen	0.163
12. Close the Detention Center at Mountain View	0.102
13. Postpone New Program Startups	0.675
14. Delay New Water Development Projects	0.725
15. Delay Alternative Energy Loans and Grants	1.143
16. Cap Park Acquisition Trust for Three Years	1.761
17. Eliminate General Fund Support for Parks Div.	0.434
18. Coal Tax Lobby Effort Reduced	0.065
19. Utilize Penalty and Interest Monies in D.O.L.I.	0.364
20. Establish Deputy County Attorney Account	0.610
Total Expenditure Reductions	48.221
Appropriate Cash Balances and Cash Flow	
21. Legislative Council Code Account	0.500
22. Social Security Interest Earnings	2.000
23. Appropriate Coal Board Funds	1.630
24. Increased Interest due to Balanced Budget	4.655
25. Remove the Limit on TRANS	0.458
Total	9.243
Reduce the Rate of "Savings"	
26. Redirect RIT Tax	4.063
27. Redirect Education Trust Coal Tax	7.043
Total	11.106
Increase Revenues	
28. Fuel Tax	22.763
29. PSC Regulated Utility Tax	1.712
Total	24.475
GRAND TOTAL	93.045

STATE REVENUES:

Under current revenue conditions and expenditure schedules, the state general fund is projected to have an ending fund balance of $1.035 million at the end of FY86, and an $87.779 million deficit at the end of FY87.

The state's financial position has declined by $117 million since the adjournment of the 1985 Legislature. Lower oil prices, lower interest rates and the effects of the 1985 drought on farm income have had the most significant impact on the state's revenues.

The decline in revenues in the general fund is mirrored in the foundation program, which will require a $25 million supplemental appropriation by the 1987 Legislature. The required supplemental appropriation illustrates that the general fund and the foundation program cannot be distinguished or separated in any discussion of state finances and budget issues.

The Governor's Executive Budget is based on the Revenue Estimating Advisory Council's revenue estimate. That estimate was developed through a two-day public hearing involving economists and representatives of the state's major economic sectors. Legislative and executive branch revenue estimates were compared by council members and taken into consideration in reaching their recommendation.

1. ACROSS-THE-BOARD REDUCTIONS

Agencies were asked to accept 5% cuts, identified on a priority basis so that reductions would have a minimal impact on services.

After review of the proposed reductions, several programs were exempted from the full 5% reduction. Direct care services at state institutions would be exempted from the cuts. Instead, three Institutions' programs that are underutilized or duplicative have been proposed for closure. Most SRS benefits are exempted from across-the board cuts and those issues presented separately as policy recommendations. The recommended across-the-board cuts would result in a savings of $12.100 million.

While the reductions would undoubtedly impose management burdens on agencies, they do not represent changes in established state policy.

2. MAINTAIN STATE EMPLOYEES' WAGES AT FY86 LEVEL

State employees' wages for FY87 would be maintained at current levels, saving the general fund $8.128 million and other funds $4.71 million in FY87.

State employees received a 3.25% increase in take-home pay in FY86. With projected inflation of only 1.5% this year and 2.7% next

year, even with the pay freeze, state paychecks would nearly keep pace with inflation over the biennium.

Collective bargaining agreements are contractual obligations for the state. Employees are scheduled to receive a 1.25% increase in base pay and a 2% merit step increase on their anniversary date. If public sector unions are unwilling to renegotiate contracts, the state will honor its obligation. However, without the dollars to fund that increase, state agencies would be forced to lay off enough workers to live within the reduced funding. That would result in unemployment for approximately 600 employees.

3. MAINTAIN THE SCHOOL FOUNDATION PROGRAM AT FY86 LEVEL

The School Foundation Program received a 4% increase in FY86 and is scheduled for another 4% increase in FY87. Maintaining the foundation program at the FY86 level would save the general fund $11.229 million.

While state government is being asked to absorb 5% reductions and a freeze in pay, school districts would receive only 2.1% less revenue than was anticipated when mill levies were set earlier this year. School districts have cash reserves amounting to $123.1 million. With average cash reserves that amount to over 26% of their total budgets, if school districts choose not to reduce expenditures, they should be able to absorb that reduction without increased mill levies, a reduction in services, or reducing teacher salaries.

4. LIQUOR SYSTEM REDUCTIONS

The liquor proposal envisions increasing profits returned to the general fund by the Liquor Division through reductions in operating expenses. The proposal would close two liquor stores, reduce commissions paid to agency stores from the current 10 percent to 8 percent effective September 1, 1986, and revise the pricing structure for liquor to more adequately reflect costs. The increased profits returned to the general fund would be $1.085 million.

5. DELAY THE CAPITOL RENOVATION

By delaying the renovation project, $4.95 million would be freed for the general fund. Any future efforts to renovate the Capitol would require new legislative authorization.

6. MAINTAIN SRS BENEFITS AT THE FY86 LEVEL

Most SRS benefits would be maintained at the FY86 level providing $1.93 million in savings in FY87. Freezing SRS benefits saves dollars without reductions in service.

Payments to nursing homes cannot be frozen or reduced, since rates were established through court order.

7. LIMIT GENERAL ASSISTANCE BENEFITS TO ABLE-BODIED RECIPIENTS

General assistance benefits for able-bodied recipients would be limited to two months in any twelve month period. The bill would not be effective until October 1, 1986, allowing all of the existing recipients to complete an 80 hour intensive job training program. Able-bodied individuals entering the program after October would receive benefits through the training period and for an additional month to seek work. This proposal would save $1.1 million in FY87.

8. OTHER SRS BENEFIT REDUCTIONS

Expenditures for day care, subsidized adoption and SSI are expected to remain at current levels, saving the general fund $90,000. The following benefit areas would be reduced: Emergency General Assistance, Big Brothers and Sisters, Home Health, Visual Medical, Residential Alcohol Abuse Treatment, Vocational Rehabilitation Case Services and Extended Employment. These reductions would save the general fund $235,568.

9. INCREASED SRS FEDERAL MATCHING RATES

The federal government has increased the FY87 matching rate for AFDC, Medicaid and Foster Care. The increase in federal funding will save the state $1.222 million in general fund match requirement.

10. CLOSE THE YOUTH EVALUATION PROGRAM

The Youth Evaluation Program in Great Falls would be closed and its clients served by Pine Hills or Mountain View School. The closure would eliminate duplication of services and save the general fund $110,169 in FY87.

11. CLOSE THE "LIGHTHOUSE" PROGRAM AT GALEN

Galen's "Lighthouse" program, originally federally funded, would be closed. This would save the state general fund $162,947 in FY87. In 1985, the average daily population was 12. Those individuals in need of residential drug rehabilitation would be served by Montana's existing private facilities.

12. CLOSE THE DETENTION CENTER AT MOUNTAIN VIEW SCHOOL

The detention center was created by the 1985 Legislature to serve as a regional detention center for youth. Because it is underused, the center is not cost effective. The center was budgeted for an average daily population of 5, but has served an average of only two clients, at an annual cost of $50,000 per youth. Closing the center would save $102,000 in FY87.

13. POSTPONE NEW PROGRAM STARTUPS

Delaying the MBA program at Eastern Montana College would save $266,241 and delaying the expansion of the drug enforcement program in the Justice Department would save $408,959.

14. DELAY NEW WATER DEVELOPMENT PROJECTS

Water development projects scheduled for FY87 would be delayed. The funds to be used for those projects would be used for administration of the existing program, saving $725,000 of general fund monies. While this proposal puts a temporary "hold" on new projects, it retains the capability to implement future water development projects.

15. DELAY ALTERNATIVE ENERGY LOANS AND GRANTS FOR THREE YEARS

No new alternative energy loans or grants would be made for the next three fiscal years, freeing up $1.143 million in FY87 for the general fund.

16. CAP THE PARK ACQUISITION TRUST FUND FOR THREE YEARS

Coal tax revenue scheduled for the Park Acquisition Trust Fund would be diverted to the general fund for fiscal years 87, 88 and 89. Increased revenue to the general fund would be $1.761 million in FY87. Interest earnings would be available to complete the purchase of Lake Elmo, but not for any other major acquisition in the 88-89 biennium. Increased gas tax revenue would provide some additional flexibility for projects eligible for snowmobile and motorboat earmarked monies.

17. ELIMINATE GENERAL FUND SUPPORT FOR THE PARKS DIVISION

The Governor recommends eliminating the $433,553 of general fund support for the Parks Division of Fish, Wildlife and Parks. Scheduled FY87 park acquisitions and improvements would be postponed, with the exception of the Fort Benton Museum. Coal tax interest monies would continue to be used to maintain Montana's existing parks.

18. COAL TAX LOBBY EFFORT REDUCED

The Governor recommends reducing the appropriation for the Coal Tax Lobby by $64,637. This proposal would leave $14,500 in general fund authority to continue monitoring activities through the end of the current session of Congress.

19. UTILIZE PENALTY AND INTEREST MONIES IN THE D.O.L.I.

Penalty and interest monies would be utilized to fund employment-related programs now funded by the general fund in the Department of Labor and Industry. The savings to the general fund would be $364,000 in FY87.

20. ESTABLISH A DEPUTY COUNTY ATTORNEY ACCOUNT

The 1985 Legislature appropriated monies for half the salary of deputy county attorneys, with funding provided by fines imposed by justices of the peace. Actual revenue collected has fallen far short of anticipated levels. The proposal would directly link collections and expenditures, by creating a special account from which deputy county attorneys would be paid. If the earmarked revenue should be inadequate to cover all authorized expenditures, available cash would be prorated to the counties. The savings to the general fund would be $610,000 in FY87.

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APPROPRIATE CASH RESERVES AND PROVIDE FOR CASH FLOW:

21. APPROPRIATE CASH FROM THE LEGISLATIVE COUNCIL CODE ACCOUNT

The Legislative Council Code account contains $500,000 that would be appropriated to the general fund.

22. APPROPRIATE SOCIAL SECURITY INTEREST EARNINGS

The Public Employees Retirement Division (PERD) is currently funded from interest earnings on social security funds collected from all levels of government. The operational costs of PERD would be charged against the pension trust funds they administer, and the $2 million in the social security account would be transferred to the general fund.

23. APPROPRIATE COAL BOARD FUNDS

The Coal Board has offered to allow $1.63 million of funds to be transferred to the general fund. While the board would be left with a reduced program in FY87, existing commitments would be honored and the program would be continued.

24. INCREASED INTEREST DUE TO BALANCED BUDGET

The revenue estimate recommended by the Governor's Revenue Estimating Advisory Council and adopted by the Governor is based on current law prior to any changes the June Special Session might adopt. Without legislative changes in June, the state would have fewer funds available to invest and, as a result, would earn less interest. Balancing the budget would increase the interest earnings by $4.655 million in FY87.

25. <u>REMOVE THE LIMIT ON TRANS</u>

Eliminating the cap on Tax and Revenue Anticipation Notes (TRANS), which the state uses each year to stabilize cash flow, would provide an additional $458,000 to the general fund in FY87.

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REDUCE THE RATE OF "SAVINGS"

26. <u>REDIRECT RIT TAX REVENUE TO THE GENERAL FUND</u>

The Resource Indemnity Trust (RIT) tax would be used to reduce general fund expenditures for the next three fiscal years, savings the general fund $4.063 million in FY87. The principal of the RIT trust would be protected, and its interest earnings would continue to be available for expenditure.

27. <u>REDIRECT THE COAL TAX ALLOCATION FROM THE EDUCATION TRUST TO THE GENERAL FUND</u>

The Education Trust would be capped for three years beginning in FY87. Coal tax collections that now are deposited in the trust would be deposited in the general fund, making $7.043 million available in FY87.

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INCREASED REVENUES:

28. <u>FUEL TAX</u>

The fuel tax would be increased by 5 cents per gallon for gasoline and 3 cents per gallon for diesel, generating an additional $24.246 million for the Highway Department in FY87. The fuel tax would also increase revenue to the Department of Fish, Wildlife, and Parks by approximately $296,000 per year.

Additional fuel tax revenues would allow federal mineral royalties totalling $6.705 million to be reallocated from the Department of Highways to the foundation program, offsetting the general fund by a like amount.

Coal tax revenue totalling $6.211 million in FY87 would be reallocated to the general fund. Beginning in FY88, this reallocation would result in additional general fund revenue of approximately $10 million per year due to the scheduled increase in coal taxes for the highway department.

Highway Patrol costs would be transferred to the highway department's state special revenue account, saving the general fund $3.083 million per year beginning in FY87.

The interest earnings currently accruing to the highway trust fund would instead accrue to the state general fund, providing an additional $6.764 million to the general fund.

The total general fund savings related to the fuel tax would be $22.763 million in FY87.

29. PUBLIC SERVICE COMMISSION REGULATED UTILITY TAX

The PSC proposes imposition of a regulated utility tax that would replace the general fund support for the PSC. Savings to the general fund would be $1.712 million in FY87.

AGENCY GENERAL FUND REDUCTIONS FOR FISCAL YEAR 1987

AGENCY	ACROSS-THE-BOARD	POLICY CUTS	FUNDING SHIFTS	TOTAL GEN FUND REDUCTION
Leg. Auditor	$ 54,542	$ 0	$ 0	$ 54,542
LFA	$ 37,480	$ 0	$ 0	$ 37,480
Leg. Council	$ 109,767	$ 0	$ 0	$ 109,767
EQC	$ 12,926	$ 0	$ 0	$ 12,926
Consum. Cns.	$ 0	$ 0	$ 0	$ 0
Judiciary	$ 46,600	$ 0	$ 0	$ 46,600
Governor	$ 113,074	$ 64,637	$ 0	$ 177,711
Sec. of St.	$ 44,544	$ 0	$ 0	$ 44,544
Pol. Pract.	$ 6,988	$ 0	$ 0	$ 6,988
St. Auditor	$ 54,562	$ 0	$ 0	$ 54,562
OSPI	$ 1,902,600	$ 0	$ 0	$ 1,902,600
Blngs Vo Tech	$ 66,222	$ 0	$ 0	$ 66,222
Butte Vo Tech	$ 50,061	$ 0	$ 0	$ 50,061
G.F. Vo Tech	$ 54,588	$ 0	$ 0	$ 54,588
Hlna Vo Tech	$ 81,588	$ 0	$ 0	$ 81,588
Msla Vo Tech	$ 65,423	$ 0	$ 0	$ 65,423
Crime Cont.	$ 24,304	$ 0	$ 0	$ 24,304
High. Safety	$ 0	$ 0	$ 0	$ 0
Justice	$ 285,485	$ 408,959	$3,693,059	$ 4,387,503
PSC	$ 0	$ 0	$1,711,671	$ 1,711,671
Bd. Pub. Ed.	$ 5,196	$ 0	$ 0	$ 5,196
Com. Higher Ed	$ 291,906	$ 0	$ 0	$ 291,906
U of M	$ 1,115,934	$ 266,241	$ 0	$ 1,382,175
MSU	$ 1,382,177	$ 0	$ 0	$ 1,382,177
EMC	$ 440,684	$ 0	$ 0	$ 440,684
NMC	$ 267,500	$ 0	$ 0	$ 267,500
WMC	$ 137,851	$ 0	$ 0	$ 137,851
Tech	$ 269,440	$ 0	$ 0	$ 269,440
AES	$ 297,112	$ 0	$ 0	$ 297,112
CES	$ 109,433	$ 0	$ 0	$ 109,433
Bur. Mines	$ 74,302	$ 0	$ 0	$ 74,302
FCES	$ 33,479	$ 0	$ 0	$ 33,479
MSDB	$ 135,549	$ 0	$ 0	$ 135,549
MT Arts Co.	$ 5,815	$ 0	$ 0	$ 5,815
Lib. Comm.	$ 27,204	$ 0	$ 0	$ 27,204
MACVE	$ 0	$ 0	$ 0	$ 0
Hist. Soc.	$ 55,662	$ 0	$ 0	$ 55,662
Bd. of Regents	$ 1,173	$ 0	$ 0	$ 1,173
Fire Serv.	$ 12,227	$ 0	$ 0	$ 12,227
FWP	$ 0	$ 433,553	$ 0	$ 433,553
DHES	$ 192,528	$ 0	$ 0	$ 192,528
Highways	$ 0	$ 0	$ 0	$ 0
St. Lands	$ 337,695	$ 0	$ 0	$ 337,695
Livestock	$ 33,640	$ 0	$ 0	$ 33,640
DNRC	$ 277,629	$ 725,000	$ 0	$ 1,002,629
Revenue	$ 850,125	$ 0	$ 0	$ 850,125
Admin.	$ 192,463	$ 0	$ 0	$ 192,463
Agric.	$ 75,016	$ 0	$ 0	$ 75,016
Inst. Co.	$ 438,330	$ 110,169	$ 0	$ 548,499

AGENCY	ACROSS-THE-BOARD	POLICY CUTS	FUNDING SHIFTS	TOTAL GEN FUND REDUCTION
BRSH	$ 0	$ 0	$ 0	$ 0
Cent. Aged	$ 50,096	$ 0	$ 0	$ 50,096
Eastmont	$ 41,617	$ 0	$ 0	$ 41,617
Mount. View	$ 62,967	$ 102,000	$ 0	$ 164,967
Pine Hills	$ 26,804	$ 0	$ 0	$ 26,804
Prison	$ 117,376	$ 0	$ 0	$ 117,376
Swan	$ 33,530	$ 0	$ 0	$ 33,530
Vets. Hm	$ 23,836	$ 0	$ 0	$ 23,836
Mt. Hosp	$ 354,424	$ 162,947	$ 0	$ 517,371
Pardons	$ 8,309	$ 0	$ 0	$ 8,309
Youth Treat.	$ 0	$ 0	$ 0	$ 0
Commerce	$ 427,611	$ 0	$ 0	$ 427,611
Lab. & Ind.	$ 34,923	$ 0	$ 363,793	$ 398,716
Emp. Sec.	$ 16,700	$ 0	$ 0	$ 16,700
Wrks. Comp.	$ 5,020	$ 0	$ 0	$ 5,020
Mil. Affairs	$ 93,588	$ 0	$ 0	$ 93,588
SRS	$ 756,732	$4,577,498	$ 0	$ 5,334,230
STATE TOTAL	$12,124,357	$6,851,004	$5,768,523	$ 24,743,884

REVENUE ESTIMATE
INTRODUCTION

The Governor created the Revenue Estimating Advisory Council in April 1986, to establish the economic assumptions necessary to forecast the revenues the state of Montana would receive in FY87. The Office of Budget and Program Planning (OBPP) was assigned to staff the Council.

The Council held public hearings on May 19-20 to receive testimony from industry representatives, economists, university faculty, state agency officials and legislative staff. The Council adopted the economic assumptions on the table that follows. The Executive Budget revenue estimate is derived from those assumptions.

The Council efforts insure that the process of creating a revenue estimate is an open, public process. The input of outside experts will help increase the accuracy of the revenue estimating process and allow for a public dialogue between legislative and executive branch staff prior to the session. Hopefully, such a process will allow not only for increased accuracy, but for closer agreement on revenues so that the legislature can spend its time deciding the spending priorities of the state rather than debating how much revenue is available to spend.

As a result of this process, the revenue estimate is presented in a different format than in previous executive budgets. The Council's estimate, based on current law, is presented first. The Governor's revenue proposals are presented separately and then the two are merged to show the balanced budget proposal.

Interest Rates (%)	CY 85	CY 86	CY 87
Short-Term (FY)	9.80	7.86	7.00
Long-Term	11.29	9.68	9.72

	FY 85	FY 86	FY 87
TCA Average Balance (Millions)	260.501*	166.500	100.000
TRANS Issue (Millions)	38.000	46.000	50.000
*Includes TRANS Issue			
Bond Calls (Millions)			
Permanent Trust		1.800	6.600
Education Trust		.600	2.000
Common School Trust		-	2.900

Personal Income	CY 85	CY 86	CY 87
MT Total Personal Income (Billions)	$8.873	$9.212	$10.000

Corporation Tax	CY84/FY85	CY85/FY86	CY86/FY87
MT Corporate Taxable Income (Millions)	$698.183	$658.320	$635.031
Department of Revenue Audits (Millions)	$ 16.639	$ 9.697	$ 6.097
Colstrip IV Sale (Millions)	-	$ 7.600	-

Liquor	FY 85	FY 86	FY 87
Liquor Unit Sales (Millions)	6.317	6.065	5.822
Wine Unit Sales (Millions)	.334	.291	.253
Liquor Cost Per Unit	$4.197	$4.367	$4.411
Wine Cost Per Unit	$2.819	$2.913	$2.942
Liquor Division Budget Growth (%)	-1.78	0.0	0.0

Cigarette	FY 85	FY 86	FY 87
Packs (Millions)	85.690	82.628	79.669

Property Tax Base (Millions)	FY 85	FY 86	FY 87
Net/Gross Proceeds	$ 730.330	$ 768.271	$ 702.773
All Other Valuation	$1600.553	$1601.862	$1623.193
Total Valuation	$2330.883	$2370.133	$2325.966

Institutions Reimbursement

MT Youth Treatment Center not certified this biennium.
All other institutions remain certified.
Remaining patient account not included.

Insurance Premiums Tax	FY 85	FY 86	FY 87
Gross Revenue Growth (%)	5.81	11.37	6.67
Police & Fireman Retirement (Millions)	$4.311	$5.344	$5.483

Telephone Tax	FY 85	FY 86	FY 87
Taxable Income Growth (%)	16.25	9.00	7.00

Electrical Energy Tax	FY 85	FY 86	FY 87
KWH Produced (Millions)	13522.915	14538.496	14756.281

Inheritance Tax	FY 85	FY 86	FY 87
Revenue Growth Rate (%)	28.46	.03	2.31

Other Revenue	FY 85	FY 86	FY 87
Drivers' License Fee			
Revenue Growth Rate (%)	-.59	44.25	2.89
Beer Tax			
Barrels (Thousands)	771	728	688
Freight Line Tax			
Revenue Growth Rate (%)	3.40	-13.37	4.50
Wine Tax			
Liters (Millions)	5.660	5.901	6.151
Other Revenue Growth (%)	1.62	37.76	7.37

Foundation Program Revenues			
Interest & Income			
Revenue Growth Rate (%)	67.78	-48.03	14.61
Mineral Leasing			

Oil, Coal, Natural Gas production at CY 83 levels.
Prices as forecast for severance taxes.

Miscellaneous Assumptions

All estimates are based on current state and federal laws.
Westmoreland Resources will continue to protest a portion of their coal severance taxes on behalf of the Crow Indian tribe.

GENERAL FUND REVENUE

The major components of general fund revenue include individual income tax, corporation license tax, coal severance tax, oil severance tax, interest on investments, long range bond excess, coal trust fund interest, insurance premiums tax, public institution reimbursements, liquor profits and excise tax and inheritance tax. These sources are shown below. Each source is discussed on the pages that follow.

Revenue Estimating Advisory Council
General Fund Revenue Estimates
(in Millions)

Source of Revenue	ACTUAL FY 1984	ACTUAL FY 1985	ESTIMATED FY 1986	ESTIMATED FY 1987
Individual Income Tax	$109.021660	$115.876580	$111.385000	$118.272000
Corporation License Tax	20.547177	36.657611	36.227000	28.101000
Coal Severance Tax	15.736468	17.432283	19.995000	16.728000
Oil Severance Tax	32.686014	32.526656	22.526000	14.046000
Interest on Investments	23.527514	25.527889	16.001000	10.208000
Long-Range Bond Excess	41.682643	37.535668	36.070000	35.560000
Coal Trust Interest Income	18.947636	24.299902	29.074000	36.104000
Insurance Premiums Tax	13.621332	15.691565	15.943000	17.370000
Public Institutions Reimb.	9.179921	12.895427	13.284000	13.632000
Liquor Profits	5.782000	4.466000	4.187000	3.817000
Liquor Excise Tax	6.415784	5.935058	5.906000	5.726000
Inheritance Tax	5.960471	7.656622	7.659000	7.836000
Metal Mines Tax	2.630135	1.977324	0.994000	0.969000
Electrical Energy Tax	2.413172	2.361855	2.529000	2.547000
Drivers' License Fee	0.799616	0.803983	0.768000	0.790000
Telephone License Tax	2.521905	2.931732	3.196000	3.419000
Beer License Tax	1.204236	1.156186	1.310000	1.238000
Natural Gas Severance Tax	2.797996	2.945778	2.627000	2.633000
Freight Line Tax	1.334111	1.379418	1.195000	1.249000
Wine Tax	0.904905	0.905648	0.944000	0.984000
Other Revenue Sources	12.590802	13.558652	17.648000	18.636000
GRAND TOTAL	$330.305498	$364.521837	$349.468000	$339.865000

Individual Income Tax

Individual or personal income tax is the largest single source of revenue to the general fund. The original tax law of 1933 has been revised many times since then. Currently, 64 percent of the tax is deposited to the general fund, 25 percent in the public school equalization account and 11 percent in the long-range building debt service account. The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability has been determined, the amount of tax due is computed by subtracting allowable credits.

The Revenue Estimating Advisory Council (REAC) estimates are based on a 3.8 and an 8.6 percent growth in total personal income for calendar years 1985 and 1986, respectively. These assumptions, in conjunction with an annual inflation rate of 1.5 percent in 1986 and 2.7 percent in 1987, will return revenue growth to a more normal pattern by FY 87.

The higher growth estimated in calendar year 1986 is primarily due to lower interest rates and the positive impacts they have on construction, agriculture and other interest-sensitive sectors.

Corporation License Tax

The corporation license tax is levied against a corporation's net income earned in Montana. The current rate is 6.75 percent. The corporation income tax is imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. These taxes apply to both domestic and foreign corporations, although there is an alternative rate for foreign corporations meeting specific requirements.

Corporation taxes are distributed like individual income tax: 64 percent to the general fund, 25 percent to the public school equalization account and 11 percent to the long-range building debt service account. Eighty percent of the taxes collected from financial institutions is distributed to local governments in the county in which the financial institution is located. The remaining twenty percent is allocated by the above percents.

The taxable income forecasts for fiscal years 1986 and 1987 are projected to decline by 5.7 and 3.5 percent respectively, based on recent declines in oil prices and the effects they have on all energy sector industries.

Additional factors that affect receipts include tax credits and audit efforts by the Department of Revenue. As with individual income tax, all forecasts have been adjusted by allowable credits. The projections for fiscal year 1986 and 1987 include $9.697 million and $6.097 million in audit collections anticipated by the department.

Included in the revenue estimate for FY 86 is an additional $7.6 million in corporation license taxes anticipated from the Montana Power Company due to the sale of Colstrip IV.

Coal Severance Tax

The coal severance tax is imposed on all coal production in excess of 20,000 tons per company per calendar year. However, producers of 50,000 tons or less in any calendar year are exempt from the tax. The current tax rate is 30 percent of value for coal with a heating quality of 7,000 or more BTU's per pound. Coal with a lower BTU rate is taxed at 20 percent.

The distribution of the tax has been modified several times since the enactment of the tax in 1975. The current and future statutory tax distributions are presented in the following tables.

COAL SEVERANCE TAX DISTRIBUTION TABLE

ACCT. ENTITY	ACCOUNT NAME	EFFECTIVE FY 1985	EFFECTIVE FY 1986	EFFECTIVE FY 1987	EFFECTIVE FY 1988
01100	General Fund	19.000%	23.750%	20.900%	14.430%
02403	Public School Equalization	5.000%	5.000%	4.400%	3.800%
02405	State Library	0.500%	.500%	.440%	.380%
02424	Highway Reconstruction Trust	.000%	.000%	6.000%	12.000%
02424	Highway Reconstruction Trust	.000%	2.000%	1.760%	.000%
02434	Conservation Districts	0.250%	.250%	.220%	.190%
02437	Alternative Energy Research	2.250%	1.250%	1.100%	1.710%
02444	County Land Planning	0.500%	.500%	.440%	.380%
02445	Local Impact	8.750%	3.000%	2.640%	6.650%
04008	Renewable Resources Bond	0.625%	.625%	.550%	.480%
04011	Water Development	0.625%	.625%	.550%	.480%
09001	Permanent Trust	50.000%	50.000%	50.000%	50.000%
09004	Park Acquisition Trust	2.500%	2.500%	2.200%	1.900%
09005	Education Trust	10.000%	10.000%	8.800%	7.600%
	TOTALS	100.000%	100.000%	100.000%	100.000%

Coal severance tax revenues are dependent on the contract sales price per ton of coal and the number of tons produced. Since most of Montana's coal is sold to utilities under long-term contracts, prices are usually allowed to increase or decrease by inflation indices specified in the contracts.

Another factor that reduces the price of coal is the deductibility of royalty payments from the contract sales price. The royalty deductions legislation was passed in 1983 and is phased in over a period of three years.

A dispute between the Decker Coal Company and the Lower Colorado River Authority involving a two million ton contract has impacted earlier estimates, both in terms of number of tons produced and price per ton. This particular contract provided for escalation clauses that allowed the price of coal to increase to about $30/ton FOB. Without this contract and with the effects of the increased royalty deductions, it is estimated that the contract sales price per ton of coal will average $8.46 in CY86 and $8.08 in CY87.

Production levels are driven by the demand for electrical power. Based on

a recent survey of the major coal producers, production was anticipated to grow to 32.7 million tons in calendar year 1986 and then increase to 36.0 million tons in CY 87. Uncertainty with some of the coal producers' projections caused the REAC to reduce the production estimate for calendar year 1987 to 34 million tons.

A dispute involving the state's authority to tax coal mined on Crow Indian land has prompted Westmoreland Resources to protest the taxes paid on this production. Until the court reaches a decision, these taxes are being deposited in an escrow account. Tax forecasts for fiscal year 1986 and 1987 assume a settlement will not be reached until after fiscal year 1987.

Oil Severance Tax

An oil severance tax is imposed on the production of petroleum and other mineral or crude oil in the state. The tax was first enacted in 1921 and has since undergone several modifications. On April 1, 1983, the tax rate increased from 5 to 6 percent. However, on April 1, 1985, the tax rate reverted back to 5 percent.

Beginning in fiscal year 1984, one-third of the tax is deposited in the local government block grant account and two-thirds in the general fund account. If production in any county increases over production in the previous year, taxes on the increased production are returned to the county. These monies are deducted from the general fund allocation.

Oil severance tax revenues are dependent on the price per barrel and the number of barrels produced. Since oil is a commodity that is used for many purposes, the price depends upon federal regulations and world demand.

Based on current market indicators and public testimony, REAC estimates that oil prices will average $15.00 in CY 86 and increase in CY 87 to $16.50 per barrel.

Total production is estimated to decline by 3.2 percent this year and then decline another 6.0 percent in CY 87. A larger decrease in production in the second year of the biennium is projected because of the influential

effect price has on total production, particularly in terms of stripper well production.

Interest on Investments

The Department of Administration's Board of Investments is responsible for investing state funds. Sections 17-6-201 and 17-6-211, MCA provide specific guidelines under which the funds must be invested. Unless specifically stated by statute, all interest earned on these investments is deposited in the general fund.

Since fiscal year 1980 interest income has become a major source of general fund revenue. Higher interest rates and larger investable balances have caused this to occur.

Interest on investments is projected to decline in fiscal years 1986 and 1987, due to shrinking cash balances and lower interest rates. Additional declines result from a bill passed by the 48th Legislature that authorized interest earned on the highway gas account to accrue to the highway account.

At the end of December, the average rate of return on the Treasury Cash Account was approximately 8 percent. Short-term rates are estimated to slide even further and average 7.9 percent for FY 86 and 7.0 percent for FY 87. The REAC assumed the average balance of the Treasury Cash Account would be $166.5 million in FY 86 and decline to $100 million in FY 87. This assumption was based on current law and no resolution of the state's budget problems.

Long-Range Bond Excess

Each biennium all agencies are requested to submit proposals for capital projects to be funded from the sale of long-range building bonds. If the legislature authorizes the sale, the principal and interest charges are paid from the long-range building debt service account. Revenues deposited to this account include portions of the individual income tax, corporation license tax, and cigarette tax, and 100 percent of the tobacco tax.

Revenues from this source are estimated by adding anticipated receipts from the tax sources mentioned above and subtracting the necessary principal and interest payments.

It is assumed that through fiscal year 1987 there will not be any additional long-range building bonds sold. Discussions of the tax forecasts relevant to this source are presented elsewhere in this document.

Coal Trust Fund Interest

Article IX, section 5 of the Montana Constitution requires the Department of Revenue to deposit 50 percent of the coal severance tax receipts to the permanent trust fund. The principal is to be inviolate, unless 3/4 of the members of each house vote for its appropriation. Eighty-five percent of the interest earned on the fund is available for appropriation each biennium, with the remaining 15% returned to the trust. Interest earned on the fund is deposited in a clearance account and reinvested until appropriated.

In 1982, voters approved Initiative 95 which required one-fourth of all future deposits to the permanent trust fund be invested in the Montana economy. This redistribution has caused investment income to grow at a slower rate. It was anticipated that this policy would stimulate economic development and that collections from personal and corporate income taxes would increase and offset the loss in investment income.

The 1981 Legislature established the authority to issue and sell coal severance tax bonds for financing specific water resource development projects. Debt service on these bonds is retired primarily with pledged project and coal severance tax revenues. This requirement reduces permanent trust fund receipts by about $356,000 and $584,000 in fiscal years 1986 and 1987, respectively.

Total permanent trust interest income is projected to increase over the forecast period but at a slower rate than previously observed. Balances available for investment are expected to grow more slowly because of lower coal severance tax receipts. Long-term interest rates are expected to

decline from CY 85 levels and then remain constant into calendar year 1987. With lower long-term interest rates, many of the bonds in the permanent trust fund portfolio are being called or have the potential of being called. It is assumed bond calls will increase total revenues by $1.8 million in FY 86 and $6.6 million in FY 87.

Insurance Premiums Tax

The insurance premiums tax is levied on the net premiums or gross underwriting profit for each insurance company operating in Montana. The tax was first enacted in 1897 and has been modified several times since then. The current tax rate is 2.75 percent of net premiums on policies sold in Montana. Receipts from the tax are distributed to the police and firemen pension funds with the remainder going to the general fund.

The level of insurance tax receipts is dependent on the affordability of insurance and the attitude of consumers toward insurance purchases. Testimony by the Insurance Commissioner and industry officials to the REAC indicated that total receipts would grow by 11.4 percent in FY 86 and 6.7 percent in FY 87.

Public Institutions Reimbursements

The Department of Institutions receives reimbursements for the cost of sheltering and treating residents of the state institutions. There are four sources of reimbursement income:

* state and federally matched medicaid monies;
* insurance proceeds from companies with whom the resident is insured;
* payments by residents or persons legally responsible for them;
* and federal medicare funds.

All revenue collected from these sources is deposited in the general fund. The one exception is the Veteran's Home receipts, which are returned to the institution.

Most of the reimbursements come from state and federally matched medicaid payments. For example, in fiscal year 1985 approximately 89 percent of all reimbursements collected were medicaid receipts. Forecasts for this component were based on the medicaid budget for the Department of Social and

Rehabilitative Services. That budget assumed the number of patient care days would remain constant at the 1985 level. Estimates have been adjusted to account for the $1.6 million FY 86 and $2.0 million FY 87 decrease in medicaid receipts due to the inability to certify the Montana Youth Treatment Center in Billings.

The other three components of reimbursement are expected to increase by roughly 4 percent per year. Not included in the REAC estimate is the potential revenue gain from the settlement of the patients' account lawsuit. Since the Department of Institutions has been involved with this lawsuit for the past ten years, the REAC decided <u>not</u> to include the potential revenue gain.

Liquor Profits and Excise Tax

The Department of Revenue is authorized to sell liquor and wines to the public and retail liquor establishments throughout the state. These sales result in profits which are deposited in the general fund.

Prices established by the department include a standard mark-up, a 16 percent excise tax and a 10 percent license tax. All of the excise tax is deposited in the general fund. The license tax is distributed to the Department of Institutions and cities, towns, and counties for alcohol treatment and rehabilitation programs.

The revenue estimates by the REAC are based on a continued decline in liquor sales for fiscal year 1986 and 1987. Although total personal income is growing, there appears to be a national trend towards moderation in liquor consumption.

The liquor division's operating expenses for the 1986-87 biennium are expected to remain constant at the fiscal 1985 level. If liquor operating expenses are reduced below their FY 85 level, total profits will increase accordingly.

Inheritance Tax

The inheritance tax is imposed on the transfer of any decedent's property, interest in property, or income from property within the state to any other person or corporation except a surviving spouse, or governmental or charitable organization. The tax rate varies from 0 to 32 percent depending on the size of the estate and the relationship of the decedent to the beneficiary. All revenue collected from the inheritance tax is deposited in the general fund.

Since 1980 revenues from inheritance taxes have fluctuated erratically because of legislative changes, accounting procedures and the processing of several large estates. Current forecasts indicate that fiscal year 1986 taxes will remain at FY 85 levels, and that FY 87 taxes will experience a 2.3 percent growth rate. Returns processed are expected to remain stable and of average size.

Other Revenue Sources

There are a number of other taxes and fees that individually generate revenue to the General Fund. These include metal mines tax, electrical energy tax, drivers' license tax, telephone license tax, beer license tax, natural gas severance tax, freight line tax, wine tax and many other miscellaneous taxes, fees and fines. All of these sources have been reflected in the revenue estimate table.

Governor's Executive Budget Proposal
General Fund Revenue Adjustments
(In Millions)

Source of Revenue		FY 87
Coal Severance Tax		
Park Acquisition Trust	$ 1.761	
Education Trust	7.043	
Department of Highways Coal Tax	6.211	
		$15.015
Investment Earnings		
Balanced Budget	$ 4.655	
TRANS Cap Removal*	1.283	
Department of Highways Account	6.764	
		$12.702
Liquor Profits		$ 1.085
Other Revenue (cash transfers)		
Delay Capitol Renovation	$ 5.100	
Delay Alternative Energy Loans & Grants	1.143	
Legislative Council Code Account	.500	
Social Security Interest Earnings	2.000	
Coal Board Funds	1.630	
		$10.373
Other Revenue (deputy county attorney)		$ -.142
TOTAL ADJUSTMENTS		$39.033

* This amount reflects the total additional revenue to be received. There will be $825,000 of increased interest costs resulting in a net increase of $458,000.

Governor's Executive Budget Proposal
General Fund Revenue Estimate
(In Millions)

Source of Revenue	Revenue Estimating Advisory Council FY 87	Governor's Proposal FY 87	Adjusted Estimate FY 87
Individual Income Tax	$118.272000	$	$118.272000
Corporation License Tax	28.101000		28.101000
Coal Severance Tax	16.728000	15.015000	31.743000
Oil Severance Tax	14.046000		14.046000
Interest on Investments	10.208000	12.702000	22.910000
Long-Range Bond Excess	35.560000		35.560000
Coal Trust Interest Income	36.104000		36.104000
Insurance Premiums Tax	17.370000		17.370000
Public Institutions Reimb.	13.632000		13.632000
Liquor Profits	3.817000	1.085000	4.902000
Liquor Excise Tax	5.726000		5.726000
Inheritance Tax	7.836000		7.836000
Metal Mines Tax	0.969000		0.969000
Electrical Energy Tax	2.547000		2.547000
Drivers' License Tax	0.790000		0.790000
Telephone License Tax	3.419000		3.419000
Beer License Tax	1.238000		1.238000
Natural Gas Severance Tax	2.633000		2.633000
Freight Line Tax	1.249000		1.249000
Wine Tax	0.984000		0.984000
Other Revenue Sources	18.636000	10.231000	29.096000
GRAND TOTAL	$339.865000	$39.033000	$378.898000

FOUNDATION PROGRAM REVENUE

The major components of foundation program revenue are income tax, corporation tax, coal tax, interest and income, US oil and gas royalties, education trust interest, and mandatory and permissive tax levies. These sources are depicted below.

Revenue Estimating Advisory Council
Foundation Program Revenue Estimates
(In Millions)

State Revenue	ACTUAL FY 1984	ACTUAL FY 1985	ESTIMATED FY 1986	ESTIMATED FY 1987
Income Tax	$ 42.586587	$ 45.264290	$ 43.510000	$ 46.200000
Corporation Tax	8.026240	14.319379	14.151000	10.977000
Coal Tax	4.141172	4.587443	4.209000	3.522000
Interest & Income	36.982835	62.050661	32.249000	36.962000
US Oil & Gas Royalties	14.948556	14.817634	12.490000	11.175000
Education Trust Interest	5.107578	5.837139	6.828000	8.257000
Miscellaneous	2.145511	0.750000		
County Levy Surplus	18.749569	21.850083		
TOTAL STATE	$132.688048	$169.476629	$113.437000	$117.093000
County Revenue				
45 Mills	81.752777	83.039638	106.656000	104.668000
Elementary Transportation	-3.278358	-3.678990	-3.627000	-3.627000
Forest Funds	1.085728	1.085136	1.391000	1.391000
Taylor Grazing	0.169283	0.121069	0.118000	0.118000
Miscellaneous	12.482688	12.795444	8.923000	8.667000
High School Tuition	-0.645808	-0.649596	-0.761000	-0.761000
TOTAL COUNTY	$ 91.566310	$ 92.712701	$112.700000	$110.456000
District Revenue	$ 17.654688	$ 18.344811	$ 18.730000	$ 18.298000
TOTAL STATE, COUNTY, DISTRICT	$241.909046	$280.534141	$244.867000	$245.847000

Sources not previously discussed under General Fund revenues are outlined on the following page.

Interest and Income

This source includes income primarily from agricultural leases, grazing fees, oil and gas leases and investment earnings from the common school trust account.

Excluding the GAAP adjustment (as is reflected on the assumptions), revenues are expected to decline from FY 85 levels.

US Oil & Gas Royalties

Montana receives 50 percent of all federal royalty payments from oil, gas, coal and other mineral production on federal lands located in Montana. The revenue estimates are based on mineral prices as previously discussed. The production forecasts are based on CY 83 levels as more recent date is not available.

Mandatory and Permissive Mill Levies

Mandatory and permissive mill levies are applied against the statewide taxable valuation which is $2.370 billion in FY 86 and is expected to be $2.326 billion in FY 87.

Governor's Executive Budget Proposal
Foundation Program Revenue Adjustments
(In Millions)

Source of Revenue	FY 87
US Oil & Gas Royalties	$ 6.705000

Governor's Executive Budget Proposal
Foundation Program Revenue Estimate
(In Millions)

Source of Revenue	Revenue Estimating Advisory Council FY 87	Governor's Proposal FY 87	Adjusted Estimate FY 87
Income Tax	$ 46.200000		$ 46.200000
Corporation Tax	10.977000		10.977000
Coal Tax	3.522000		3.522000
Interest & Income	36.962000		36.962000
US Oil & Gas Royalties	11.175000	$ 6.705000	$ 17.880000
Education Trust Interest	8.257000		8.257000
Miscellaneous			
County Levy Surplus			
TOTAL STATE	$117.093000	$ 6.705000	$123.798000
County Revenue			
45 Mills	$104.668000		$104.668000
Elementary Transportation	-3.627000		-3.627000
Forest Funds	1.391000		1.391000
Taylor Grazing	0.118000		0.118000
Miscellaneous	8.667000		8.667000
High School Tuition	-0.761000		-0.761000
TOTAL COUNTY	$110.456000	$ 0	$110.456000
District Revenue	$ 18.298000	$ 0	$ 18.298000
TOTAL STATE, COUNTY, DISTRICT	$245.847000	$ 6.705000	$252.552000

1. ACROSS-THE-BOARD REDUCTIONS

Proposed Reductions:	FY87
General Fund	$12,124,357
State Special	11,974,372
Proprietary	1,569,234
TOTAL	$25,667,963

This proposal is a continuation of the Governor's 2% budget reduction initiated in January of this year. As with the earlier reduction, this proposal "tightens the belt" of state government. Agencies will accomplish these reductions by leaving vacant positions unfilled, delaying equipment purchases and reducing travel budgets. While the reductions would undoubtedly impose management burdens, they would not significantly reduce state services.

The recommendation anticipates that the legislature will adopt this "across-the-board" approach rather than reviewing each program item-by-item and position-by-position. This approach would provide program managers the flexibility to live with a reduced budget and continue to provide services. It would also allow the special legislative session the time to focus its attention on the other twenty-eight policy issues recommended by the Governor.

After extensive review and discussion, a few state programs were exempted from taking the full 5% cut. The major exemptions are direct care services in the state's institutions and social service benefits provided through the Department of Social and Rehabilitation Services. Because these areas concern important state policy, reductions recommended in these areas are presented as separate policy issues.

To insure "belt-tightening" in all state agencies, the Governor's proposal includes reductions to state special revenue accounts and state proprietary accounts. Equity plays an important part in the recommendation to reduce the authority of "earmarked" programs. While we generally do not propose

re-directing savings to the general fund, these reductions maintain consistency within state government.

Reductions in earmarked accounts would produce savings that can be used in the future to minimize the necessity for increases to fee structures and user taxes that finance earmarked programs.

Several areas were exempted from these "other fund" reductions. The general fund 5% cut, the pay plan proposal and the MBA program elimination have substantial impact on the Montana University System. Because of this, the 5% reduction has not been applied against the 6 mill levy appropriation or the allocation of coal tax revenue for student assistance. Hopefully, exempting the student assistance program's coal tax revenue will help mitigate the anticipated reductions in student assistance at the federal level. In addition, those proprietary accounts that produce merchandise for consumption by the public were excluded.

Reduction in proprietary accounts that provide services to other state agencies will help other agencies meet their budget reductions.

The following table provides a breakdown of the "across-the-board" reductions recommended in each agency.

AGENCY ACROSS-THE-BOARD REDUCTIONS FOR FISCAL YEAR 1987

AGENCY	FY87 Gen. Fund	FY87 St.Special	FY87 Proprietary	FY87 Total All Funds
Leg.Aud.	$54,542	$47,104	$0	$101,646
LFA	$37,480	$0	$0	$37,480
Leg.Council	$109,767	$0	$0	$109,767
EQC	$12,926	$1,310	$0	$14,236
Consua.Cns	$0	$44,879	$0	$44,879
Judiciary	$46,600	$56,093	$0	$102,693
Governor	$113,074	$0	$0	$113,074
Sec. of St.	$44,544	$16,170	$0	$60,714
Pol. Pract.	$6,988	$50	$0	$7,038
St. Aud.	$54,562	$66,469	$0	$121,031
OSPI	$1,902,600	$45,729	$0	$1,948,329
Blgns Vo Tc	$66,222	$0	$0	$66,222
Butte Vo Tc	$50,061	$0	$0	$50,061
Gt.Fls.VoTc	$54,588	$0	$0	$54,588
Hlna VoTc	$81,588	$0	$0	$81,588
Msla VoTc	$65,423	$0	$0	$65,423

AGENCY ACROSS-THE-BOARD REDUCTIONS FOR FISCAL YEAR 1987

AGENCY	FY87 Gen. Fund	FY87 St.Special	FY87 Proprietary	FY87 Total All Funds
Crime Cont.	$24,304	$0	$0	$24,304
High.Safety	$0	$3,535	$0	$3,535
Justice	$285,485	$685,324	$0	$970,809
PSC	$0	$0	$0	$0
Bd.Pub.Edc	$5,196	$0	$0	$5,196
Com Higher Ed	$291,906	$0	$0	$291,906
UofM	$1,115,934	$0	$0	$1,115,934
MSU	$1,382,177	$0	$0	$1,382,177
EMC	$440,684	$0	$0	$440,684
NMC	$267,500	$0	$0	$267,500
WMC	$137,851	$0	$0	$137,851
Tech	$269,440	$0	$0	$269,440
AES	$297,112	$0	$0	$297,112
CES	$109,433	$0	$0	$109,433
Bur.Mines	$74,302	$0	$0	$74,302
FCES	$33,479	$0	$0	$33,479
MSDB	$135,549	$0	$0	$135,549
Mt Arts Co	$5,815	$0	$0	$5,815
Lib Comm	$27,204	$22,309	$0	$49,513
MACVE	$0	$0	$0	$0
Hist Soc	$55,662	$0	$0	$55,662
Bd of Regents	$1,173	$0	$0	$1,173
Fire Serv	$12,227	$0	$0	$12,227
FWP	$0	$806,047	$109,665	$915,712
DHES	$192,528	$208,061	$0	$400,589
Highways	$0	$7,585,885	$36,700	$7,622,585
St. Lands	$337,695	$169,293	$9,294	$516,282
Livestock	$33,640	$176,901	$0	$210,541
DNRC	$277,629	$299,343	$0	$576,972
Revenue	$850,125	$45,758	$32,572	$928,455
Admin.	$192,463	$13,498	$1,192,564	$1,398,525
Agric	$75,016	$57,335	$7,644	$139,995
Inst. CO	$438,330	$17,232	$0	$455,562
BRSH	$0	$0	$0	$0
Cent Aged	$50,096	$0	$0	$50,096
Eastmont	$41,617	$0	$0	$41,617
Mount.View	$62,967	$0	$0	$62,967
Pine Hills	$26,804	$0	$0	$26,804
Prison	$117,376	$0	$0	$117,376
Swan	$33,530	$0	$0	$33,530
Vets Hm	$23,836	$0	$0	$23,836
Mt.Hosp	$354,424	$0	$0	$354,424
Pardons	$8,309	$0	$0	$8,309
Youth Treat.	$0	$0	$0	$0
Commerce	$427,611	$1,248,045	$180,620	$1,856,276
Lab and Ind	$34,923	$163	$175	$35,261
Emp Sec	$16,700	$0	$0	$16,700
Wrks Comp	$5,020	$0	$0	$5,020
Mil.Affrs	$93,588	$0	$0	$93,588
SRS	$756,732	$357,839	$0	$1,114,571
STATE TOTAL	$12,124,357	$11,974,372	$1,569,234	$25,667,963

Cash Balances in Proprietary Funds

Proprietary funded operations are conducted like a business. They charge for the services they provide. Since they are state agencies, their sources of revenue are limited to receipts from other state agencies. Their goal is not to make a profit but to provide services to state agencies in the most efficient manner possible. Two examples of good business practices followed by these proprietory operations are volume buying and taking advantage of technological changes that lower the cost of providing services, as in the areas of communications and data processing. The demand for services from these proprietary operations is driven by user agencies.

These business operations require cash to maintain their operations. They have fluctuations in their expenses and revenues and they have outstanding liabilities requiring cash payment. Generally, a 45 - day working capital reserve is acceptable and desirable, but each proprietary operation is distinctive and should be evaluated individually. The majority of proprietary operations do not have this reserve, while some have identified a reserve that may be too high. To reduce excess reserves, agencies have either reduced rates in FY86 or are proposing rate reductions for their services in FY87. In some cases, there have been no rate increases even though agencies were budgeted for them through inflation rates applied by the 1985 Legislature.

All of the reserves include federal funds. For this reason, the administration does not recommend that excess reserves be appropriated. The federal government monitors proprietary funds to verify that federally funded agencies are not overcharged for services. Lawsuits would almost certainly arise if the federal government did not receive its share of any cash that was distributed from proprietary funds.

Rate reductions appear to be the fairest and most logical way to reduce these excess balances. Even after reviewing rates in light of usage, required expenditures and volatility of each of the respective funds, there is a risk in committing to lower rates. If 5% budget reductions result in lower usage by agencies and rates are lowered, adequate cash might not be available for payment of the liabilities of the proprietary operations.

The following proprietary operations have either reduced rates in FY86 or will reduce rates in FY87:

Department of Administration

- Computer Services portion of Information Services Division
- Telecommunications Bureau
- General Services Division

Department of Justice

- Agency Legal Services

Department of Highways

- Motor Pool Unit

2. MAINTAIN STATE EMPLOYEES PAY AT FY86 LEVEL

	Current FY 87	Proposed FY 87	Difference
General Fund	$12,314,000	$ 4,186,000	$ 8,128,000
Other Funds	7,006,000	2,594,000	4,412,000
TOTAL	$19,320,000	$ 6,780,000	$12,540,000

The pay for state employees would be maintained at the FY86 level, saving the general fund $8,128,000 and other funds $4,412,000 in FY87. Employees were scheduled to receive a 1.25% increase in base pay and a 2% merit step increase on their anniversary date. The proposed $4,186,000 expenditure in FY87 is the cost of continuing the FY86 pay increase into FY87. The FY86 increase represented a 1.5% increase in the base pay. The 1985 Legislature also enacted SB 247, which made the employee contributions to retirement exempt from taxation. The effect was to provide an additional 2% increase in take home pay.

The Consumer Price Index is forecast to increase by only 1.5% in 1986 and 2.7% in 1987. Even with the pay freeze, state paychecks would nearly keep pace with inflation during the current biennium. Since 1981, state employees' salaries have more than kept pace with inflation. The following table summarizes the increases in pay and the CPI since 1981.

YEAR	FISCAL YEAR PAY INCREASES	CPI
1981	7%	10.4%
1982	10.5	6.1
1983	10.5	3.2
1984	3.5	4.3
1985	3.5	3.5
1986	*3.5	1.5
1987	0	2.7
Total	45%	36%

*(Includes SB 247)

Collective Bargaining Agreements

Collective bargaining agreements are contractual obligations for the state. If public sector unions are unwilling to renegotiate contracts, the state will honor its obligation. However, without the dollars to fund that increase, state agencies would be forced to lay off enough workers to live within the reduced funding. That would result in unemployment for approximately 600 employees.

3. MAINTAIN SCHOOL FOUNDATION PROGRAM

	Current FY87	Proposed FY87	Difference
General Fund	$ 21,067,000	$ 21,067,000	$ 0
G.F. Supplemental	25,034,000	13,805,000	(11,229,000)
Earmarked Revenues	245,849,000	245,849,000	0
TOTAL	$291,950,000	$280,721,000	$(11,229,000)

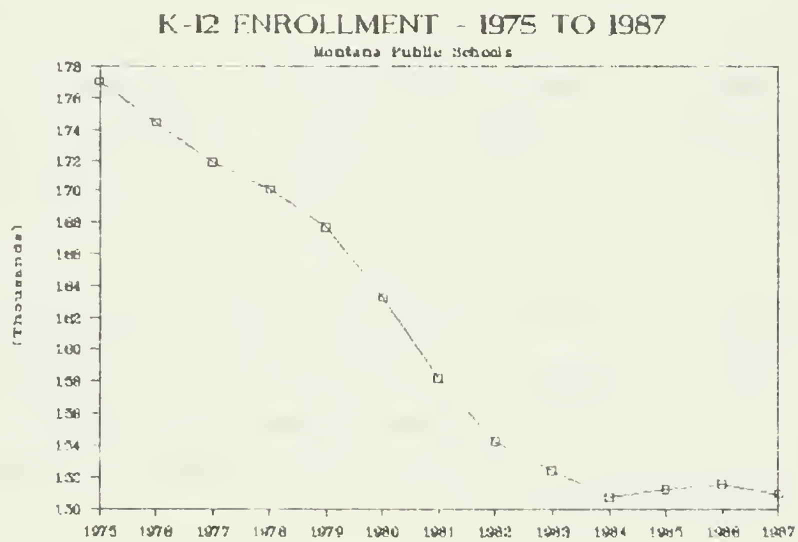
The School Foundation Program received a 4% increase in FY86 and is scheduled for another 4% increase in FY87. Maintaining the foundation program at the FY86 level would save the general fund $11.229 million.

The public school system is being asked to take a much smaller reduction than state agencies. For state programs, a 5% budget reduction and a freeze in employees pay is proposed. Since only half of the school districts' total revenue comes from the foundation program, this proposal would reduce school districts' funds by only 2.1% from the revenue anticipated when mill levies were set earlier this year.

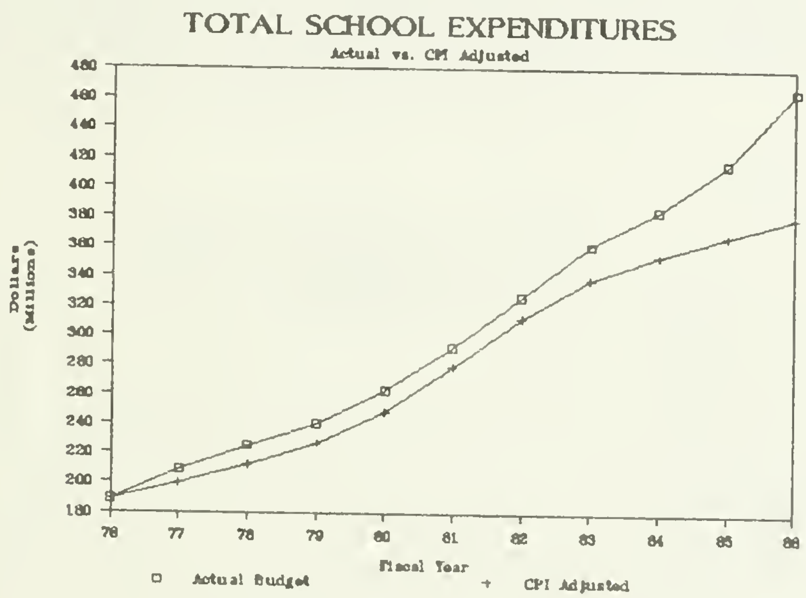
School districts have cash reserves amounting to $123.1 million. With average cash reserves that amount to over 26% of their total budgets, if school districts choose not to reduce expenditures, they should be able to absorb that reduction without increased mill levies, a reduction of services, or reducing teacher salaries.

Enrollments and School Expenditures

Public school enrollments have declined over the last ten years while school expenditures per pupil have climbed. Enrollments are expected to decline slightly again in FY87, allowing schools some additional financial flexibility since foundation program payments are based on the previous year's enrollment.



Public school expenditures have increased rapidly over the past ten years. The following table illustrates the growth in school expenditures compared to what school expenditures would have been had their growth been limited to the rate of inflation. School districts are spending $100 million dollars per year more than if budgetary increases had been held to the rate of inflation over the past ten years.

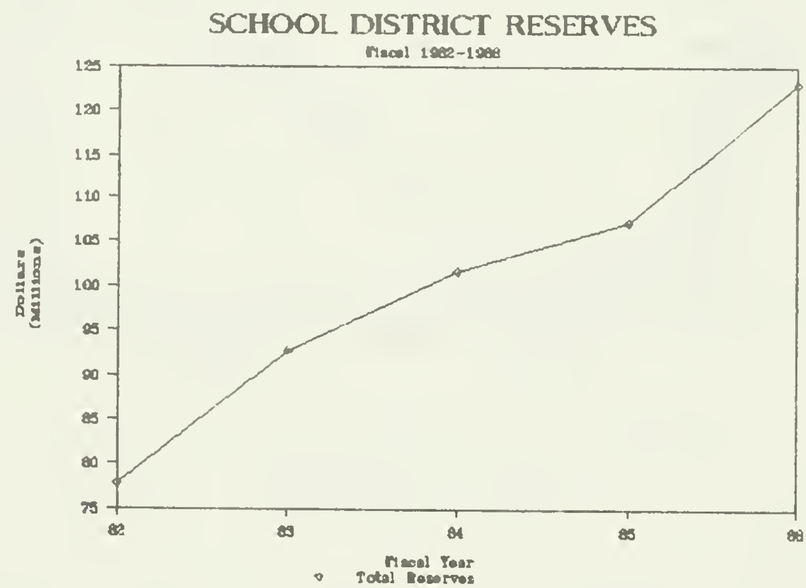


Comparison of School Total GF Expenditures
Actual vs Indexed to CPI

Fiscal Year	ANB	Gen Fund $ /ANB	FY CPI	GF/ANB Indexed For Inflation (76 is base)	Actual Total Expenditures	Total Expenditures Indexed
76	174,451	$1,081	10.0900	$1,081	$188,527,000	$188,527,000
77	171,944	$1,214	7.4550	$1,161	$208,639,000	$199,670,427
78	170,117	$1,323	6.1050	$1,232	$225,003,000	$209,609,174
79	167,654	$1,431	7.0550	$1,319	$239,914,900	$221,161,410
80	163,276	$1,608	9.4550	$1,444	$262,598,449	$235,736,855
81	158,185	$1,848	12.3900	$1,623	$292,294,061	$256,683,589
82	154,256	$2,115	11.9000	$1,816	$326,251,222	$280,094,742
83	152,366	$2,369	3.2500	$1,966	$360,972,724	$299,526,923
84	150,711	$2,552	4.6750	$2,057	$384,622,537	$310,033,542
85	151,246	$2,750	3.3050	$2,136	$415,980,557	$323,024,352
86	151,557	$3,068	2.45	$2,128	$464,991,083	$331,619,455

School District Reserves

School districts have substantial cash reserves. For the FY86 school year, those reserves amounted to 26% of their total general fund budgets. Over the past five years, those reserves have grown both in amount and as a percentage of the school districts' general fund budgets. As of June 30, 1985 school districts had cash balances of $123.1 million dollars. Maintaining the foundation program at the FY86 level would cost districts $11.2 million of lost revenue. If districts drew down their cash balances by 9% on the average they could totally adsorb the loss of revenue with no other effects.



SCHOOL DISTRICTS' GENERAL FUND RESERVES

HISTORICAL PERSPECTIVE

	District Reserves	Cash Reapprop	Total GF Reserves	Total School GF Budget	Reserves As A % of Total GF
82	$63,145,096	$14,696,460	$77,841,556	$326,251,222	23.86%
83	$75,527,044	$17,172,258	$92,699,302	$360,972,724	25.68%
84	$82,094,357	$19,560,246	$101,654,603	$384,622,537	26.43%
85	$86,847,129	$20,333,245	$107,180,374	$415,980,557	25.77%
86	$98,147,694	$24,896,462	$123,044,156	$464,991,084	26.46%

Cash Anticipation Financing

For those school districts who would face a cash flow problem by drawing down their reserves to compensate for the loss of foundation program revenues there is a state program to provide low interest cash flow loans. Montana Cash Anticipation Financing, operated by the Department of Commerce is set up to issue pooled tax exempt bonds for local governments and school districts. The approach is exactly the method used by the State of Montana to fininace its cash flow with tax and revenue anticipation notes. In FY86 five school districts used the program, three districts were able to obtain interest free loans, the other two paid less than 2%.

4. LIQUOR SYSTEM REDUCTIONS

	Current FY87	Proposed FY87	Difference
Liquor Revenues	$ 3,817,000	$ 4,902,000	$1,085,000

Detail of Liquor Store Expense Reductions:

1. Close 2 stores in FY 1987	
Savings	$ 129,000
2. Reduce Agency Commissions to 8% Effective September 1, 1986	
Savings	$ 156,000
3. Revise Liquor Price Structure	$ 800,000
TOTAL SAVINGS	$1,085,000

This proposal will increase profits returned to the general fund by the Liquor Division through reductions in operating expenses. The proposal would close two liquor stores, reduce commissions paid to agency stores from the current 10% to 8%, and revise the pricing structure for liquor to more adequately reflect costs.

The closure of two stores is expected to produce a net savings of $129,000 in FY87. Reducing commissions paid to agency store operators would begin September 1, 1986. This reduction would affect 81 agency stores and would generate $156,000 in savings during 10 months of FY87. Four agency stores are already at the 8% commission rate.

Revising the liquor pricing structure would be done by adopting a multi-tiered mark-up percentage on liquor linked to unit size and case costs. Mark-ups would vary to reflect operating expenses and profit margin requirements. The liquor price revision would generate $800,000 in FY87.

5. DELAY CAPITOL RENOVATION PROJECT

	Current FY87	Proposed FY87	Difference
General Fund Revenue	$ 0	$5,100,000	$5,100,000
General Fund Expenditures	0	(150,698)	(150,698)
GENERAL FUND NET	$ 0	$4,949,302	$4,949,302

The Capitol Renovation Project was authorized by the 1981 Legislature. It was projected to cost $6,750,000. Funding for the project came from the issuance of bonds for $5,000,000. The difference of $1,750,000 was to be generated from interest earnings on the investment of the $5,000,000. Revenue from the Capitol Land Grant was obligated to make the annual bond payments.

The project balance is estimated to be $5,100,000 by October 1986. This proposal recommends the $5,100,000 be transferred to the general fund. An October 1986 transfer date would be consistent with the effective date of the original legislation. Using this time frame would allow the Capitol Land Grant to make the next principal and interest payment of $582,300 on the bonds. From then until 1995 when the bonds are paid off, the general fund would be responsible for the debt service, with payments averaging approximately $600,000 per year. The first payment would be an interest payment of $150,698 in February. The transfer of responsibility for debt service from the Capitol Land Grant to the general fund is due to restrictions in the use of Capitol Land Grant monies.

A synopsis of the Capitol Renovation project through October of 1986 follows:

Revenue	
Bonds issued	$5,000,000
Interest thru October 1986	3,218,086
TOTAL REVENUE	$8,218,086

Expenditures	
Funding for HB 928 (FY 86-87 LRBP)	$1,347,236
Project expenditures	1,740,599
TOTAL EXPENDITURES	$3,087,835
Project Balance	$5,130,251

6. MAINTAIN SRS BENEFITS AT FY86 LEVEL

	-------------GENERAL FUND-------------		
BENEFIT AREA	CURRENT FY87	PROPOSED FY87	DIFFERENCE
Developmental Dis.	$ 5,750,900	$ 5,204,168	($ 546,732)
AFDC	10,233,069	9,771,579	(461,490)
Medicaid-Other	11,261,971	10,829,694	(432,277)
State Medical	3,177,525	3,026,214	(151,311)
General Assistance	5,099,904*	4,903,714	(196,190)
SSI	946,446	901,748	(44,698)
Aging	631,081	612,757	(18,324)
Day Care (prog 02)	320,109	301,807	(18,302)
Medicaid Waiver	594,175	578,222	(15,953)
Extended Employment	298,768	289,200	(9,568)
Training	200,019	190,345	(9,674)
Day Care (prog 01)	164,489	156,656	(7,833)
Big Brothers/Sisters	169,500	162,980	(6,520)
Domestic Violence	137,146	131,871	(5,275)
Visual Medical	75,696	71,277	(4,419)
Home Health	31,249	30,047	(1,202)
W. Yellowstone Contract	5,577	5,362	(215)
TOTAL	$39,097,624	$37,167,641	($1,929,983)

*The General Assistance appropriation for FY87 includes the supplemental received during the March 1986, special legislative session.

This proposal would maintain benefit rates at the FY86 level for the majority of benefits offered by the Department of Social and Rehabilitation Services. Caseloads for the various benefit areas would remain at the projected FY87 level.

Some benefit areas do not show up in the table above. They are discussed below.

- Nursing home rates for the 1987 biennium were established through court order. Therefore, they cannot be frozen or reduced without the consent of the nursing homes. A rate freeze for nursing homes at the FY86 level would generate between $485,336 and $723,747 in general fund savings.

- Due to unforeseen caseload increases, the Foster Care program will over-expend its general fund biennial appropriation. Though rates for the various foster care services would also be frozen at the FY86 level, savings would be applied against the anticipated supplemental appropriation instead of the general fund.

-Rates for the Medicare Buy-In program cannot be altered by the State because they are set by the federal government. Therefore, this benefit area would not be reduced.

-Provider rates for vocational rehabilitation services would also be frozen at the FY86 level. However, state savings would only occur in the workers' compensation earmarked account. The general fund was held constant for both years of the biennium while workers' compensation funds were increased to reflect higher rates in FY87.

A rate freeze is one of the few ways general fund savings can be generated without actual reductions in service. Generally, providers are not pleased with the possibility of a rate freeze but prefer it to the alternative of major cuts in services.

CONTINUE FY86 SRS BENEFIT SAVINGS

BENEFIT AREA	CURRENT FY87	PROPOSED FY87	DIFFERENCE
	-----------GENERAL FUND------------		
Day Care (prog 02)	$320,109	$300,109*	($20,000)
Subsidized Adoption	119,139	104,139	(15,000)
Supplemental Security Income	946,446	891,446*	(55,000)
TOTAL	$1,385,694	$1,295,694	($90,000)

*The proposed rate freeze would further reduce Day Care ($18,302) and Supplemental Security Income ($44,698).

This proposal would continue projected FY86 savings of three benefit areas into FY87. Under-expenditures are expected in Day Care, Subsidized Adoption and Supplemental Security Income for FY86. It is assumed that the expenditure level for FY86 will be continued into FY87, generating $90,000 of general fund savings.

7. LIMIT GA BENEFITS FOR ABLE-BODIED INDIVIDUALS

Benefit Area	CURRENT FY87	PROPOSED FY87	DIFFERENCE
	-------------GENERAL FUND	------------	
General Assistance	$5,099,904*	$3,999,904**	($1,100,000)

*This amount includes the supplemental funding received from the March 1986, Special Legislative Session.

**The proposed rate freeze would further reduce this benefit area by $196,190.

This proposal would limit general assistance (G.A.) benefits for able-bodied recipients to two months in any twelve month period. The effective date of this proposal would be October 1, 1986, allowing all existing recipients to complete an 80-hour intensive job training program. Able-bodied individiuals entering the program after October would receive benefits through the training period and for an additional month to seek work.

Training in job search activities will be available to able-bodied G.A. recipients starting in July 1986. HB 12 of the 1986 March special legislative session requires that able-bodied G.A. recipients participate in a structured 80-hour job search and training program. This training component is followed by 40 hours per week of job search related activities. General assistance payments could be withheld or reduced if the recipient refuses to participate in any of the training, job search, or workfare components.

The G.A. caseload has grown tremendously over the last three years. This growth in caseload can be linked to three factors: state assumption; a lawsuit which established a higher general assistance benefit level; and rising unemployment. Table 1 illustrates the caseload growth over the past three years.

TABLE 1
GENERAL ASSISTANCE CASELOAD HISTORY

		Average Monthly Caseload
Actual:	FY84	1116
	FY85	1703
Original caseload projection prior to passage of HB843	FY86	1432
	FY87	1564
Appropriated: (Based on passage of HB843)	FY86	904
	FY87	1033
Actuals for FY86:	July, 1985	1562
	January, 1986	2106
	February, 1986	2171
	March, 1986	2330
	April, 1986	2326

As can be seen from the above table, the G.A. caseload has far surpassed the original caseload projections which were offered to the legislature at the beginning of the 1985 regular session. HB843 attempted to address the growing caseload by eliminating benefits to able-bodied recipients under the age of 35 and limiting benefits to able-bodied recipients between 35 and 50. Caseload projections were lowered to reflect the impact of HB843. The constitutionality of the bill was challenged and a final decision by the Montana Supreme Court prohibited SRS from implementing the legislation.

During the 1986 March special session, the legislature once again attempted to address the increasing G.A. caseload through the introduction of two bills. HB9 proposed a constitutional amendment that would have given the legislature the ability to limit public assistance benefits. This bill was defeated. HB12, which passed, established the job search and training program already discussed.

During FY86, both the Department of Social & Rehabilitation Services (SRS) and the Department of Labor and Industry conducted surveys to determine the make-up of the general assistance caseload. SRS reviewed 1596 cases in

12 counties while the Department of Labor and Industry reviewed 632 cases in four counties. Some of the more significant results of these surveys are listed in Table 2.

TABLE 2

CHARACTERISTICS OF GENERAL ASSISTANCE RECIPIENTS

Category		Department of SRS	Department of Labor
Age:*	17-34	48.0%	----
	17-40	----	67.8%
	35-49	32.0	----
	41-50	----	18.4%
	Over 50	16.3	11.6
Sex:	Male	75.0	71.5
	Female	25.0	28.5
Family Size:	Single	79.0	59.7
	Two	12.0	16.5
Residency:	3 Months or less	38.0	10.6
	12 Months or less	71.0	16.2
	No response	0	29.6
Workfare Elig: (able-bodied)	Yes	70.0	84.8**
	No	20.0	15.2**
	Not Available	10.0	
Job Ready:	Yes	Not Asked	33.7
	No	Not Asked	66.3

*It was not possible to compare age distribution as both departments reported them differently.

**This response reflects G.A. recipients' response to the question of whether they have physical problems preventing employment.

The above table shows that the majority of G.A. recipients are able-bodied, single males between the ages of 17 and 40. It also shows that a significant percent of the overall G.A. population is not ready for employment. The Department of Labor and Industry noted that the lack of job readiness for 66.3% of the recipients was a result of various barriers to employment.

These barriers included:

- -being out the job market for more than one year (50%).
- -lack of skills (33%).
- -lack of transportation, no address/phone, and poor job hunting skills (33%).
- -appearance, poor hygiene, poor work history, and chronic health problems (10-20%).

The job search and training program is being developed to address these barriers to employment. If successful, able-bodied G.A. recipients who want to work will have a better chance of looking for and obtaining employment.

This proposal to limit benefits for able-bodied G.A. recipients to two months is projected to reduce the G.A. caseload by 438 and the general fund appropriation by $1.1 million in FY87. Table 3 shows the impact of the proposal on the caseload and appropriation.

TABLE 3
PROPOSED REDUCTION TO GENERAL ASSISTANCE CASES AND APPROPRIATION

	---------FY87---------	
	Cases Per Mo.	General Fund Dollars
As Currently Projected	1869	$5,099,904
Projected Reductions	(438)	($1,100,000)
Projected Caseload and Expenditures Per Proposal	1431	$3,999,904

8. OTHER SRS BENEFIT REDUCTIONS

BENEFIT AREA	GENERAL FUND CURRENT FY87	GENERAL FUND PROPOSED FY87	DIFFERENCE
Emergency General Assist.	$100,000	$ 0	($100,000)
Big Brothers & Sisters	169,500	88,000*	(81,500)
Home Health	31,249	16,249*	(15,000)
Visual Medical	75,696	61,910*	(13,786)
Residential Alcohol Abuse Treatment for Indigent Youth	225,000	213,750	(11,250)
Case Services (Voc. Rehab.)	47,000	38,400	($ 8,600)
Employment	298,768	293,336*	(5,432)
TOTAL	$947,213	$711,645	($235,568)

*The proposed rate freeze would further reduce Big Brothers & Sisters ($6,520), Home Health ($1,202), Visual Medical ($4,419), and Extended Employment, ($9,568).

It is proposed that several of the smaller benefit areas be reduced beyond rate freezes. Each of these benefit areas is discussed below.

Emergency General Assistance The Emergency General Assistance appropriation was intended to give temporary assistance to those able-bodied general assistance recipients who would have lost eligibility under HB 843 proposed during the 1985 regular legislative session. This bill eliminated general assistance benefits to able-bodied individuals under age 35 and limited benefits to able-bodied individuals between the ages of 35 and 50. Because of a Supreme Court ruling prohibiting SRS from implementing HB 843, the appropriation is not needed.

Big Brothers & Sisters It is proposed that the appropriation for Big Brothers and Sisters be reduced by 50% for FY87. Unlike most of the other benefit areas, this volunteer program is well established in most communities around the state, receiving funding from many different sources. Because of the program's many existing resources (approximately $652,000

statewide for FY86), the cutback in state funding may be picked up at the community level.

Home Health Currently the Department of SRS contracts with the Lewis & Clark County Health Department for personal care services, household management and transportation for individuals who would otherwise need nursing home care. These home attendant services would be continued with in-house resources for a projected savings of $15,000.

Visual Medical The general fund finances 100% of the Visual Medical program and pays medical bills for visual-related problems. Funds are not contracted out in advance but are expended as eligible medical bills are submitted. This proposal would reduce this program by 18%, resulting in fewer approved medical payments.

Residential Alcohol Abuse Treatment for Indigent Youth HB 935 of the 1985 regular legislative session appropriated $225,000 per year from the general fund for residential alcohol abuse treatment for indigent youth. A 5% reduction is proposed and is meant to reflect the 5% general fund reduction requested of all state agencies by the Governor. Because fewer youth would be served, the issue is presented as a separate recommendation.

Case Services Case services within the Vocational Rehabilitation Division require a 20% state match. The proposed reduction of $8600 in the general fund could, at maximum, represent a total reduction of $43,000 in benefits. Approximately 43 individuals could lose services under this proposed cutback.

Extended Employment This program places handicapped individuals in sheltered employment. It is financed wholly by the general fund. A reduction could result in the removal of clients from the program.

9. INCREASED SRS MATCHING RATE

	FY87
Projected General Fund Savings	$1,221,947

Federal matching rates for AFDC, Medicaid, and Foster Care have historically been established for two years at a time. Montana's federal matching rate for federal fiscal years (FFY) 1986 and 1987 was 66.38%. Due to a recent change at the federal level, federal matching rates will now be established on an annual basis. Montana's new federal matching rate for FFY 1987 is 67.44%. When adjusted for the difference in state and federal fiscal years, the federal matching rate for state fiscal year 1987 will be 67.175%. This increase in the federal share of expenses is projected to produce general fund savings of $1,221,947 for FY87.

It is important to note that future federal matching rates could decrease, especially since the 67.44% rate is the highest since before 1972. A future reduction in the federal matching rate would require an increase in the general fund to maintain current level services.

10. CLOSE THE YOUTH EVALUATION PROGRAM

	Current FY 87	Proposed FY 87	Difference
FTE	6.0	1.1	(4.9)
Per. Ser.	$122,168	$19,824	($102,344)
Operations	19,807	11,982	(7,825)
Equipment	0	0	0
TOTAL	$141,975	$31,806	($110,169)

The Youth Evaluation Program in Great Falls is one of three facilities in Montana where the Department of Institutions provides 45-day evaluations of youth offenders. The two other facilities are Mountain View School in Helena and Pine Hills School in Miles City. Because the Youth Evaluation Program essentially duplicates the 45-day evaluation provided by the other two facilities, it is recommended that the facility be closed, effective August 1, 1986. Evaluations would be completed on existing residents by July 1, 1986.

The proposal allows 1.1 FTE in FY 87 to fund the termination pay and the July 1986 personal services for the six staff members. The operational costs for July 1986 are also included in the proposal. Our recommendation also considers that the present lease on the facility which runs until June 30, 1987.

The Youth Evaluation Program was established in 1975. It can house up to eight residents. Both male and female offenders between ages 12 and 18 are referred to the program by local courts and local probation and parole officers.

The Youth Evaluation Program has an average daily population of 5.1 youth. Fifty-three youth completed the program in 1985. There were 106 of these evaluations performed at Mountain View School and 161 at Pine Hills in 1985. An additional one or two youth at Mountain View School and two or three more at Pine Hills School could be accommodated. There may be other options which the courts could choose if the judges prefer not to use these existing programs.

The department will save $110,169 by having these evaluations performed at Mountain View or Pine Hills. These institutions would absorb any incidental costs associated with this recommendation.

11. CLOSE THE "LIGHTHOUSE" PROGRAM AT GALEN

	Current FY87	Proposed FY87	Difference
FTE	7.75	.50	7.25
Per. Ser.	$160,182	$41,132	$119,050
Operations	$ 28,093	$ 832	$ 27,261
Equipment	0	0	0
TOTAL	$188,275	$41,964	$146,311
Other MSH Savings			$ 16,636[1]
TOTAL SAVINGS			$162,947

The Lighthouse Drug Treatment program is located on the Galen campus of the Montana State Hospital. The purpose of the program is to provide inpatient treatment services for serious drug abusers.

When it began in the early 1970s, the program was federally funded from Hospital Improvement grant money. These funds were no longer available after the mid 1970s and the state took over the program.

The Lighthouse is a 90-day program with a staff of 7.75 FTE who work directly with the residents. The staff members establish rehabilitative programs and assist each resident in completing established objectives. The residents participate in class work, group therapy, individual counseling and reality therapy programs. The facility is in a separate building and has a 15-bed capacity.

There were 45 individuals treated in the center in 1985. Of these, 34 were first time admissions and 11 were readmissions. In 1985, the average daily population (ADP) at the facility was 12.

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[1]Closing the Lighthouse program saves the Montana State Hospital an additional $5,000 in utilities and $11,636 in employee and resident meals for a total of $16,636.

Including the Galen and the Lighthouse program, there are a total of 38 alcohol and drug abuse treatment centers throughout the state. Of these, there are 29 approved outpatient programs and 7 inpatient programs. With the exception of the Lighthouse program, inpatient drug treatment programs involve a 28-30 day period of treatment.

The Governor recommends closing the Lighthouse drug program at the Montana State Hospital and allowing these services to be provided by other treatment centers throughout the state. With the exception of a .50 supervisor position, all positions associated with this program would be eliminated. The Department of Institutions recommends transferring the .50 supervisory position from the Lighthouse program to the Alcohol Services Center.

All patients enrolled in the program on July 1, 1986, would complete their individual programs and the program would be closed on or around September 1, 1986, resulting in a FY87 savings of $162,947. The Montana State Hospital would save $5,000 in utility costs and $11,636 in employee and resident meals.

12. CLOSE THE YOUTH DETENTION CENTER AT MOUNTAIN VIEW

	Current FY87	Proposed FY87	Difference
FTE	5.16	0	5.16
Per. Ser.	$105,804	$3,804	$102,000
Operations	0	0	0
Equipment	0	0	0
TOTAL	$105,804	$3,804[1]	$102,000

The 49th Legislature passed HB-667 authorizing funds for a youth detention center located at the Mountain View School in Helena. The Center was designed to house no more than five male youths under the age of 18. Three female youths may be detained in one of the cottages for purposes of this bill. The purpose of the center is to detain youth who would otherwise be jailed with adults in local facilities. The various users of the facility are to reimburse costs to the Department of Institutions at the rate of $63.00 per resident per day.

The legislature authorized $63,000 in FY85 to renovate an existing facility and authorized a biennial appropriation of $187,777 and 5.16 FTE to operate the facility as a pilot project until June 30, 1987. The first resident of the center was admitted on October 17, 1985. Since that time, the average daily population (ADP) has been only two residents. The staff is needed around the clock if there is even one resident in the facility. The state loses reimbursement when the center is not fully utilized. To date, housing an ADP of two youths is costing the state over $50,000 per resident per year.

Because it is underutilized, the youth detention center is not cost effective. The state is losing money for each day the ADP is below the budgeted capacity of the center. If maximum usage cannot be achieved and the center remains open, the state will continue to subsidize a program that was

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[1]The $3,804 will be used to cover any unforseen contingency costs in the phase out of this program. If these costs are not necessary, the department will administratively revert this amount to the general fund.

intended to provide services to the counties on a self supporting basis.

The Governor recommends eliminating the youth detention center at Mountain View School, allowing the unencumbered balance of funds to revert to the general fund. This would require the legislature to repeal the statutory provisions of HB-667.

The closure would be effective July 1, 1986, saving 5.16 FTE and $105,804. This amount takes into account the termination pay for the existing staff and includes $3,804 for contingency funds which would adminstratively revert to the general fund if unused.

13. POSTPONE NEW PROGRAM STARTUPS

Criminal Investigators Program

Category	Current FY87	Proposed FY87	Difference
FTE	13.00	6.00	7.00
Expenditures			
Personal Services	$367,712	$174,956	$192,756
Operations	245,408	59,459	185,949
Equipment	30,254	0	30,254
TOTAL	$643,374	$234,415	$408,959
Funding			
GENERAL FUND	$643, 374	$234,415	$408,959

The 49th Legislature approved an expansion of the criminal investigators program to begin FY87. The modification adds 7.0 FTE and $408,959 in general fund monies to provide undercover investigation into stolen property and illegal drug cases. The criminal investigators program staff are required to assist local, state and federal law enforcement officials in the investigation of felony crimes (sections 4-2-115 and 5-13-304(3), MCA). The appropriation also includes $100,000 of "buy money."

The Department of Justice has not begun the hiring process for the 7 new FTE authorized for FY87. Delay of this program modification would save the general fund $408,959.

University of Montana's Masters of Business Administration - Expansion to Eastern Montana College

Instruction Program - UM
MBA Addition

	Current FY87	Proposed FY87	Difference
FTE	4.44	0	(4.44)
Expenditures			
Personal Services	$ 171,907	$ 0	($ 171,907)
Operating	32,634	0	(32,634)
Equipment	61,700	0	(61,700)
TOTAL	$ 266,241	$ 0	($ 266,241)
Funding			
General Fund	$ 266,241	$ 0	($ 266,241)

The expansion of the University of Montana's Masters of Business Administration program to the Billings campus of Eastern Montana College, planned for FY87, would be delayed.

The Board of Regents is currently examining the role and scope of each of the two universities and four colleges within the Montana University System. Part of this reveiw involves examination of redundancy of program and course offerings within the system. Expansion of programs is not fiscally responsible outside the context of total system evaluation. Currently, the MBA program is provided at the Missoula campus and at the Malmstrom Air Force base. The Malmstrom program is supported by federal payment of military personnel tuition and fees and provision of the program facility. General fund expansion of the MBA program to Billings should be delayed.

14. DELAY NEW WATER DEVELOPMENT PROJECTS

	* Current FY87	Proposed FY87	Difference
FTE	144.47	144.47	0.00
Expenditures			
Per Ser	$3,410,036	$3,410,036	$ 0
Oper	1,266,890	1,266,890	0
Equip	14,470	14,470	0
Grants	8,500	0	0
TOTAL	$4,699,896	$4,699,896	$ 0
Funding			
General Fund	$ 3,680,209	$2,955,209	$(725,000)
State Special	976,887	1,701,887	725,000
Federal Special	42,800	42,800	0
TOTAL	$ 4,699,896	$4,699,896	$ 0

* The current column reflects HB-500 appropriations. The 5% reduction is included in the policy issue summary.

The Water Resources program is funded by state general funds, state special revenue and federal funds. In FY86, $784,470 has been appropriated from the Resource Indemnity Trust (RIT) fund to offset general funds.

The continued use of RIT and Water Development funds to operate this resource development program in FY87 is consistent with the purposes of the RIT and with previous legislative appropriations. The funding proposal is outlined below:

1. HB-922 Water Development Projects
   Administrative Expenses - $277,000 is appropriated to the Department of Natural Resources and Conservation (DNRC) to administer HB-922. Of this amount, $200,000 would be transferred to HB-500 to offset the general fund.

not made decision yet but have decided not to go with list

Hanlee - not intent to go thru a grant/prioritize projects - have choice not to present a list - not crowded because of using them into the General Fund.

Environmental Contingency Account (ECA)

Currently 5% of the RIT appropriation to DNRC is allocated to the ECA. By reducing this to 1.8 %, $300,000 of the $475,000 in the account could be transferred to HB-500 to offset the general fund. This would allow continuation of a reasonable level of funding in the ECA.

2. HB-947 Water Development Loans and Grants

Emergency Grants $125,000 - These funds would be transferred to HB-500 to offset the general fund. This action is not expected to have a long term impact as the Environmental Contingency Account(ECA) remains available to fund any emergency situation.

3. HB-947 Water Development Grant Program Projects

$100,000 of the grants appropriated to this program would be used to offset operating expenses of the Water Resources Division in HB-500. These funds offset general funds. The projects delayed would be from the prioritized list in HB-947.

This recommendation would allow DNRC to operate the water development program with minimal disruption. The alternative use of HB-922 administration funds would not permit the Department to prepare a list of recommended projects for presentation to the 1987 legislative session. The reduction of Environmental Contingency Funds would not impair the Governor's ability to respond to those contingencies outlined in HB-922 since an estimated $175,000 will remain in the Contingency account. This proposal puts a "hold" on new projects, but keeps the necessary foundation to implement the program in the future.

in 1986
6.92

1987
7.5% estimate

15. DELAY ALTERNATIVE ENERGY LOANS AND GRANTS

	*Current FY87	Proposed FY87	Difference
FTE	40.00	40.00	0.00
Expenditures			
Per. Ser.	$1,037,473	$1,037,473	$ 0
Operation	2,504,992	1,632,834	(872,158)
Equipment	3,250	3,250	0
Grants	1,150,706	879,864	(270,842)
TOTAL	$4,696,421	$3,553,421	$(1,143,000)
Funding			
Gen.Fund	$ 467,401	$ 467,401	$ 0
State Spec.	3,263,000	2,120,000	(1,143,000)
Fed Spec.	966,020	966,020	0
TOTAL	$4,696,421	$3,553,421	$(1,143,000)

* The current column reflects HB-500 appropriations. The 5% reduction is included in the policy issue summary.

The Energy Division Program is funded by state general funds, state special revenue and federal funds. These funds are to administer the Montana Facility Siting Act, the Alternative Energy Grant and Loan Program and federal energy conservation programs.

The Governor recommends transferring the estimated $1 million FY86 Alternative Energy Research Development and Demonstration account balance to the general fund. The Alternative Energy funds have been used to make grants and loans for projects in the research, development, demonstration and commercialization areas. Under this recommendation, program emphasis would be shifted from grants and loans to improving the energy efficiency of state buildings. Funds remaining in the program would be used to energy retrofit at least eight state-owned buildings, reducing state operating costs. Funding of energy grants and loans would be deferred until FY90. The Department will continue to monitor and administer existing grants and loans.

The FY87 appropriation would be reduced by $1,143,000 because various grants and loans would not be made.

16. CAP PARK ACQUISITION TRUST FOR THREE YEARS

17. ELIMINATE GENERAL FUND SUPPORT FOR PARKS DIVISION

	* Current FY87	Proposed FY87	Difference
FTE	100.57	100.57	0.00
Expenditure			
Per Ser	$1,977,369	$1,977,369	$ 0
Oper	1,064,036	1,064,036	0
Equip	199,890	199,890	0
Grants	500,000	500,000	0
Transfers	117,644	117,644	0
TOTAL	$3,858,939	$3,858,939	$ 0
Funding			
General Fund	$ 433,553	$ 0	$(433,553)
State Special	2,668,581	3,102,114	433,553
Federal Special	501,500	501,500	0
Proprietary	255,305	255,305	0
TOTAL	$3.858,939	$3,858,939	$ 0

* The current column reflects HB-500 appropriations. The 5% reduction is included in the policy issue summary.

The Parks program uses a mix of general funds, state special and federal funds to operate and maintain the State Parks system and the Capitol Complex grounds. The parks system includes recreation areas, state parks and monuments, fishing sites, roads and trails. The program is responsible for administration of the snowmobile recreation program and the federal Land and Water Conservation Fund.

The Governor recommends that, in addition to the 5% reduction, all general funds be replaced with the Coal Severance Tax allocated to the Division under 15-35-108(H)(i), MCA. The Department may use these funds for projects, repair and maintenance authorized in 23-1-102, MCA. This recommendation would require the Department to use almost all of the Coal Severance Tax interest for parks operation activities. The scheduled FY87 park acquisitions and improvements would be postponed, except for the Fort Benton Museum acquisition authorized by HB-928 and phase two of the Lake Elmo purchase.

The Lake Elmo option expires on July 14, 1987. Fishing access site improvements would continue as planned.

The Coal Severance Tax revenue scheduled for the Parks Acquisition Trust fund would be diverted to the general fund for fiscal years 87, 88 and 89, adding $1,761,000 to the general fund in FY87. Except for interest rate fluctuations, interest earnings available for parks and cultural and aesthetic projects would remain constant at the 1986 level of $1,229,000. Under this recommendation, coal tax funds would not be available for major acquisitions and improvements through the FY89 biennium.

The proposed 5 cent per gallon gasoline tax would provide an additional $296,000 per year in revenue and therefore provide flexibility for projects eligible for snowmobile and motorboat earmarked monies.

18. COAL TAX LOBBY EFFORT REDUCED

Category	Current FY87	Proposed FY87	Difference
FTE	0	0	0
Personal Services	$ 0	$ 0	$ 0
Operations (contracted services)	50,000	14,500	(35,500)
Equipment	0	0	0
Subtotal appropriation	$50,000	$14,500	($35,500)
FY 86 carry forward	$29,137	0	(29,137)
Total appropriation	$79,137	$14,500	($64,637)*

The Governor's Office received a general fund appropriation of $50,000 each year of the 86-87 biennium, and the unexpended balance from the previous biennium, to finance a defense of the state's right to levy severance taxes on coal mined in Montana, to oppose federal legislation that would diminish the state's revenue through discriminatory funding allocations, and to monitor federal actions regarding coal transportation and the Clean Air Act. The funding provides for the contracted lobbyists, travel for the Legislative Oversight Committee members and the lobbyist team, equipment, and a portion of staff salaries. This proposal would reduce the FY87 appropriation, and the carry-forward balance from FY86.

The State of Montana has a vital interest in maintaining its right to impose severance taxes on coal and other natural resources mined within its borders. While direct threats to state severance taxation have diminished, a number of related issues such as federal funding formula amendments that penalize states levying severance taxes and acid rain legislation will continue to be considered by the Congress until its scheduled adjournment this fall. The enactment of acid rain containment legislation which jeopardizes the future use of western low sulfur coal could diminish demand for Montana coal. Adverse amendments to federal funding formulas could exacerbate Montana's budget problems. These issues will be debated throughout the summer.

*This amount includes the cut taken in Across-the-Board Recommendation ($5,137.00).

At the conclusion of the current session of Congress, the Governor proposes that the coal tax lobby program be eliminated. The Office of the Federal-State Coordinator, Montana's Congressional delegation and the Western Governors' Association will continue to monitor these issues.

19. UTILIZE PENALTY AND INTEREST MONIES IN D.O.L.I.

	Current FY87	Proposed FY87	Difference
Expenditures			
Apprenticeship	$154,793	$154,793	$ 0
Pre-employment training	84,000	84,000	0
Dislocated Worker program	125,000	125,000	0
P & I Reversion to Trust Fund	450,000	86,207	(363,793)
TOTAL	$813,793	$450,000	($363,793)
Funding			
General Fund	$363,793	$ 0	($363,793)
Federal Special Revenue	450,000	450,000	0
TOTAL	$813,793	$450,000	($363,793)

The Department of Labor and Industry collects penalty and interest money from employers. This money is presently deposited in the Unemployment Insurance Trust Fund and can be used solely for the payment of U.I. benefits (39-51-1301, MCA).

A penalty is imposed on employers for late contribution payments. If the payment is less than 20 days late, the employer is subject to a penalty assessment of $10 or 10% of the amount owed, whichever is greater. A late payment over 20 days past due is assessed $15 or 15% of the contribution due, whichever is greater. In addition, all past due contributions bear interest at a rate of 18% a year, prorated on a daily basis.

The amount collected by the department varies from year to year. The average collected has been approximately $450,000.

This proposal recommends a legislative amendment to 39-51-1301, MCA, to allow the money to be deposited in a separate U.I. Penalty and Interest Account. If the amendment were passed, general funds would be replaced with penalty and interest money for department functions that provide for retraining or training the unemployed or underemployed and for administration of the U.I. program. These uses of the P & I funds is in con-

formance with the Federal Department of Labor rules. P & I that is not appropriated would continue to be deposited to the UI Trust Fund. General Funded Unemployment Insurance activities that would be subject to the legislative change are listed in the table above.

20. COUNTY ATTORNEY PAYROLL PROGRAM

	Current FY87	Proposed FY87	Difference
FTE	84.00	84.00	0
Expenditures			
Personal Services	$1,584,648	$1,584,648	$ 0
Operations	0	0	0
Equipment	0	0	0
TOTAL	$1,584,648	$1,584,648	$1,584,648
Funding			
General Fund	$1,584,648	$832,336	$(752,312)
State Special	0	752,312	752,312
Total	$1,584,648	$1,584,648	$ 0
General Fund Revenue	$ 142,000	$ 0	$(142,000)
Net General Fund Impact			$ 610,312

The county attorney payroll program provides state funding for the salaries of county attorneys and one-half the salary of no more than two deputy county attorneys per county (section 7-4-2501, MCA). This proposal would shift state funding of deputy county attorney salaries from the general fund to a state special revenue fund, but would not alter the amount appropriated. This policy would reduce general fund appropriations by $752,312 and decrease general fund revenue by about $142,000, for a net general fund spending reduction of $610,312. County attorneys' salaries would still be paid from the general fund.

Senate Bill 116 passed by the 1985 Legislature expanded the county attorney payroll program to provide state funding for half of the salary and longevity benefits of no more than two deputy county attorneys per county, and to increase the salaries of part-time county attorneys. The program was supported by the general fund. SB 116 also authorized local judges to impose and collect fines of $10.00 in each misdemeanor case and the greater of $20.00 or 10 % of the fine levied in each felony case (section 46-18-236, MCA). Counties collect and remit these fines to the state treasurer monthly for deposit to the general fund, with the county retaining up to 10 % to pay

administrative collection costs (section 46-18-236 (6), MCA). Cities and towns may retain fines levied by city and town court justices for payment of city and town attorneys.

The fiscal note for SB 116 estimated that total revenues would offset increased expenditures for deputy county attorney salaries. These revenues were forecast to be $826,434 each fiscal year. The cost of funding one-half the salaries of deputy county attorneys was estimated to be $781,688 in FY86 and $835,523 in FY87. Thus, revenue collections were anticipated to be somewhat more than expenditures.

Expenditures for deputy county attorney salaries are higher than estimated for two reasons: the actual salaries paid to deputy attorneys were higher than estimated in the fiscal note, and the number of deputy county attorneys was underestimated by four.

Revenues due from the passage of SB 116 have been lower than anticipated. Fines remitted by county authorities have totalled $108,512 through April 30, 1986. By the end of FY86, total revenue collected is forecast to be about $142,000, or 17% of the fiscal note estimate. The Department of Justice projects that expenditures for salaries of deputy county attorneys authorized by the 1985 Legislature will be $140,000 more than the appropriation for the biennium. The Department has requested a supplemental appropriation of $70,000 for FY86 to cover the additional cost of deputy county attorney salaries and anticipates a similar request in FY87.

This policy proposal would establish a state special revenue fund for deposit of the fines authorized by SB 116 (section 46-18-236, MCA) and remitted by counties. The general fund appropriation for the salaries of deputy county attorneys would be transferred to this state special revenue fund. Deputy county attorney salaries and longevity pay authorized by SB 116 (section 7-4-2502, MCA) would be paid from the state special revenue fund. If cash balances in the state special revenue fund were inadequate to pay all authorized expenditures, available cash would be prorated among counties and any shortfall in the salaries payable to deputy county attorneys would be the responsibility of respective counties.

21. MONTANA CODE ANNOTATED STATE SPECIAL REVENUE ACCOUNT

Category	Current FY87	Proposed FY87	Difference
Estimated cash balance of the Montana Code Annotated Account	$1,019,000	$519,000	($500,000)
Transfer to the General Fund	0	500,000	500,000
TOTAL	$1,019,000	$1,019,000	$ 0

The Legislative Council passed a resolution at its May 16, 1986, meeting to appropriate $500,000 of the cash balance from the Montana Code Annotated (MCA) state special revenue fund to the general fund. The state special revenue account receives income from the sale of the MCA and the MCA Annotations which is used to pay the cost of publishing the documents. Over the years, the account has earned revenues in excess of costs, making a cash transfer to the general fund possible.

The MCA state special revenue account was established in FY79. In the first two years of operation, the account received $481,500 from the general fund. Since that time, the publication and sales of the MCA and Annotations have been self-supporting and have provided enough revenue to recoup the general fund seed money and have excess cash.

The Codes must be priced at cost to state and local governmental agencies and may be priced at cost plus 20% for sales to the public. During FY86, the Council sold subscriptions to the Annotations and has received approximately $222,500 of the estimated $265,000 in sales revenue.

The cash balance in the Montana Code state special revenue fund was about $970,000 as of April 30, 1986, and has never been below $500,000 in the previous 18 months. The Council estimates another $62,000 in sales and about $239,000 (including an 11 % contingency) in costs through FY87. The projected cash balance at the end of FY87 is $780,000.

22. SOCIAL SECURITY INTEREST EARNINGS

	Current FY87	Proposed FY87	Difference
General Fund Revenue	$0	$2,000,000	$2,000,000

The Public Employees' Retirement Division (PERD), through an agreement with the U.S. Department of Health and Human Services, is responsible for the collection of Social Security payments from Montana's state and local government agencies. When received by PERD, the collections are invested by the Board of Investments, with interest earnings funding PERD's budget.

Excess interest earnings are deposited in a reserve account to fund future budgets. This reserve will have an estimated $2 million by the end of FY86. This proposal recommends the $2 million be transferred to the general fund in FY87. Funding for the operation of PERD would come from an administrative charge built into employers' contributions for employees' retirement.

Social Security payments from state and local agencies are due into PERD on the 7th and 26th of each month. PERD then makes payments from these contributions to the U.S. Treasury on the 15th and the last day of the month. Collections are invested for interest earnings during the period between collections by PERD and the date payments are made to the U.S. Treasury. The reserve is also invested. The interest earnings from these investments have been used to defray the cost of administering PERD. (19-1-602 (3), M.C.A.)

FY	INTEREST EARNINGS	PERD EXPENDITURES
86	$ 430,000 (estimated)	$ 844,617 (FY86 budget)
85	523,340	740,979
84	755,341	749,450
83	820,188	663,748
82	996,256	665,133
81	997,722	719,367
80	1,484,521	553,059

Until recently, interest earnings exceeded expenditures and the reserve

was growing. Two factors have changed that trend: more restrictive federal guidelines (allowing the state less time to invest the contributions), and lower interest rates on investments. This means the reserve has to make up the difference between interest earnings and the budget for the division, thus reducing the reserve.

In addition to transferring the reserve to the general fund, this proposal would transfer any future interest earnings from yearly contributions to the general fund beginning in FY88. This amount is estimated to be $175,000 per year. The Social Security Unit of PERD performs the task of accounting for the collections from the agencies. This unit would be funded by the general fund beginning FY88. The cost of this unit is $150,000 per year.

Beginning in FY88, an administrative charge would be assessed on the employer's contribution to PERD to pay for the retirement function of the PERD budget. This charge would be based on the preceding year's expenditures and would not exceed .2 of 1%.

23. COMMUNITY ASSISTANCE PROGRAM - COAL BOARD

	Current FY87	Proposed FY87*	Difference
FTE	2.5	2.5	0
Personal Services	$ 79,222	$ 79,222	$ 0
Operating	107,280	107,280	0
Equipment	0	0	0
Grants	2,771,169	1,771,169	(1,000,000)
TOTAL	$ 2,957,671	$ 1,957,671	($1,000,000)
Revenue to Gen.Fund	$ 0	$ 1,000,000	$1,000,000
FY86 Rev. to GF	$ 0	$ 630,000	$ 630,000

* Does not include 5% reduction of appropriation authority.

The Coal Board passed a resolution in May 1986, initiating the transfer to the state's general fund of uncommitted Coal Board Local Impact Assistance Program grant funds for FY86 and of $1 million of its grants authority in FY87. The estimated amount of uncommitted funds in FY86 is $630,000. It is recommended that these coal tax funds be deposited to the general fund.

The purpose of the Local Impact Assistance Program is to help mitigate the impacts of increased demand for public services at the local level resulting from large-scale coal mining or coal-using energy sites development. Coal production has not increased significantly since 1980. Most of Montana's coal is used as fuel for electricity generation facilities, and national demand for electricity is expected to grow only slightly for the next several years. The low world price of oil could also have a negative effect on Montana's coal production if oil replaces coal for electricity generation.

This proposal would leave the Coal Board program in existence to meet needs that may develop in the future.

24. INCREASE INTEREST DUE TO BALANCED BUDGET

	Current FY87	Proposed FY87	Difference
Increased Interest Due to a Balanced Budget	$10,208,000	$14,863,000	$4,655,000

Interest earnings on the investment of cash in the "treasury cash account" are a significant source of revenue to the general fund. Cash is available for investment when an agency has current revenue that exceeds its actual disbursements on any given day during the year. Earnings accrue to the state general fund on all accounts including earmarked revenues, proprietary funds, and trust funds unless state law specifies otherwise.

The revenue estimate used in the Executive Budget proposal is based on current law prior to any changes the June special session might adopt. Without legislative changes, the amount of cash available for investment -- and therefore interest earnings -- would be less than under a balanced budget.

Balancing the budget in the proposed manner would increase interest earnings in FY87 by $4,655,000.

25. REMOVE THE LIMIT ON T.R.A.N.S.

At various times during the fiscal year, tax revenues are not available to pay the current liabilities of government agencies. The Internal Revenue Service allows government agencies to issue tax exempt notes to alleviate this short-term deficit. The amount of the notes issued is based on one month's deficit, plus the next month's expenditures.

Sections 17-1-201 through 17-1-204, MCA, authorize the issuance of the Tax and Revenue Anticipation Notes (TRANS). Section 17-1-202 limits the issuance to $50 million. This proposal would eliminate this limit, allowing the state to earn interest on higher levels of issuance. Elimination of the limit would enable the state to engage in more effective cash management practices.

26. REDIRECT RESOURCE INDEMNITY TRUST TAX

	Current FY87	Proposed FY87	Difference
RIT Tax Deposit To Trust	$4,063,000	$ 0	($4,063,000)
RIT Taxes Used To Offset General Fund	$ 0	$4,063,000	$4,063,000

The Resource Indemnity Trust is estimated to receive $4,063,000 in FY87. Under current law, this revenue is deposited in a trust account. Interest earnings from this account are used to fund various program expenditures and special projects.

It is proposed that, instead of being added to the balance in the Resource Indemnity Trust account, FY87-89 tax collections be used to reduce general fund expenditures .

The proposal would not affect the current trust account balance of $53.4 million. Nor would it affect current allocations of interest earnings from the trust account. Allocations for water development, hazardous waste and super fund activities, and for the environmental contingency account would remain unchanged. The proposal does not affect the projects approved by the 1985 legislature in HB922. Many of those projects are already underway. Taking the funding in FY87 would leave many sponsors in a difficult position.

27. REDIRECT EDUCATION TRUST COAL TAX

	Current FY87	Proposed FY87	Difference
Education Trust Revenues	$7,043,000	$ 0	($7,043,000)
General Fund Revenues	$ 0	$7,043,000	$7,043,000

Current law allocates 8.8% of coal severance tax collections in FY87 to be deposited in the Education Trust account. The interest earnings from the account are used to support the school foundation program, programs within the university system, and vocational and adult basic education programs.

This proposal would redirect these funds to the state general fund during fiscal year 1987-1989. The general fund would receive $7.043 million in FY87. Current allocations of Education Trust account interest earnings would remain unchanged.

28. FUEL TAX

The fuel tax would be increased by 5 cents per gallon for gasoline and 3 cents per gallon for diesel. This increase would generate additional revenues totalling $24.246 million for the Department of Highways in FY87. The increase would also increase revenue to the Department of Fish, Wildlife and Parks by approximately $296,000 per year.

Additional fuel tax revenues would allow federal mineral royalties totalling $6.705 million to be reallocated from the Department of Highways to the Foundation Program, offsetting the general fund by a like amount.

Coal tax revenue totalling $6.211 million in FY87 would be reallocated to the general fund. Beginning in FY88, this reallocation would result in additional general fund revenue of approximately $10 million per year due to the scheduled increase in coal taxes for the highway department.

Highway Patrol costs would be transferred to the highway department's state special revenue account, saving the general fund $3.083 million per year beginning in FY87.

The interest earnings currently accruing to the highway trust fund would accrue to the state general fund, providing $6.764 million in increased revenue to the general fund.

The total general fund savings related to the fuel tax would be $22.763 million in FY87.

Highway Patrol Program

	Current FY87	Proposed FY87	Difference
FTE	239.60	239.60	0
Expenditures			
Personal Services	$7,000,570	$7,000,570	$0
Operations	1,784,669	1,784,669	0
Equipment	1,049,358	1,049,358	0
TOTAL	$9,834,597	$9,834,597	$0
Funding			
General Fund	$3,082,747	0	($3,082,747)
State Special Revenue Fund	6,270,787	$9,353,534	3,082,747
Federal & Other Special Revenue Fund	481,063	481,063	0
TOTAL	$9,834,597	$9,834,597	$ 0

This proposal does not alter the highway patrol program, but does recommend a funding change. Currently, all civilian personal services, equipment and operating costs are general fund expenditures, while personal services expenses of uniformed FTE are paid from state special revenue funds (earmarked highway taxes). This proposal would eliminate all general fund monies and would replace them with earmarked highway funds.

Article VIII, Section 6 of the Constitution of Montana limits use of highway revenue to construction, repair and maintenance of public roadways and bridges, enforcement of highway safety, driver education, tourist promotion and administrative costs, unless appropriated for other purposes by a three-fifths vote of each house of the legislature. The effective operation of the highway patrol program depends on civilian personnel and expenditures for operations and equipment, as well as on the services of uniformed officers. Funding the entire operation of the highway patrol with earmarked highway funds would be within the constitutional provision to use such funds to enforce highway safety.

The highway patrol program could operate more efficiently if it were funded entirely from earmarked highway funds. For the 1987 biennium, the program has a 2% vacancy savings for the FTE funded by the earmarked highway funds and a 4% vacancy savings for FTE funded by general fund. Funding all program expenses with the earmarked highway revenue would allow the flexibility to use operating expense savings to offset a portion of the vacancy savings required in uniformed officer personnel costs. Such flexibility might reduce future supplemental appropriations requested for uniformed officer salaries.

29. PUBLIC SERVICE COMMISSION REGULATED UTILITY TAX

	Current FY87	Proposed FY87	Difference
FTE	46.00	46.00	0.00
Expenditures			
Per Ser	$1,301,844	$1,301,844	0
Oper	445,384	359,800	(85,584)
Equip	30,362	30,362	0
TOTAL	$1,777,590	$1,692,006	$(85,584)
Funding			
G.F.	$1,711,671	$ 0	$(1,711,671)
State Special	0	$1,626,087	1,626,087
Federal	50,919	50,919	0
Proprietary	15,000	15,000	0
TOTAL	$1,711,671	$1,692,006	$ (85,584)

The Public Service Commission is currently funded by the general fund and $50,919 of federal pipeline and rail safety funds. This proposal recommends that the Public Service Commission be funded by the regulated industries. The Commission would introduce legislation with the following provisions to meet its budgetary needs:

1. The proposed funding mechanism is a tax on the intrastate gross revenues of the regulated industries. This method is now used to fund the operations of the Consumer Counsel. The tax for municipal utilities would be a maximum 0.06 of one percent of the intrastate gross revenues.

2. The Commission would continue to be funded by a general fund loan through January 1, 1987. The tax would be effective July 1, 1986, with first revenues available for use on January 1, 1987. That time lag would be necessary because, under the present system, companies have 90 days beyond the quarter to pay the tax. The first available taxing quarter is July to September, with the tax due 90 days after September 1, 1986.

In order to eliminate the general fund impact in FY87, a pay back provision would be included in the proposed legislation. The regulated companies make three tax payments, December 31, 1986, March 30, 1987 and June 30, 1987. Under the payback provision, the Department of Revenue would increase the percentage for each of the payment periods to reimburse any general funds expended during FY87.

3. All fees presently collected by the Commission would continue to be deposited in the general fund.

Fees collected in FY85	$1,183,470
Fees collected through April 1986	$1,100,765

The proposed method of funding regulatory commissions is used in 29 states and a combination of taxes and fees is used in 11 states. The 10 remaining states use general funds.

We recommend the 1987 Commission budget be reduced 5%. The $85,584 reduction would eliminate all Commission travel. Public hearings would be held in Helena. Computer program development for a case management system authorized by the 1985 Legislature would be delayed.

This proposed funding change would result in annual general fund savings of $1.7 million.

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